Our Ref: CS:CS:20180489

29 March 2019

ASX Limited
Exchange Centre
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SYDNEY NSW 20000

Attention: **Company Announcements**

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Dear Sir/Madam

John Bridgeman Limited (NSX:JBL) off-market takeover bid for Henry Morgan Limited (ASX:HML)

We act for Henry Morgan Limited.

Pease find attached a copy of the third supplementary target's statement.

The supplementary target's statement has been lodged with the Australian Securities and Investments Commission and served on JBL today.

Yours sincerely

Caroline Snow

Caroline Snow
Partner
AJ & Co Lawyers

Henry Morgan

Third Supplementary Target's Statement

In response to the offer by John Bridgeman Limited (JBL) to acquire all of the shares in Henry Morgan Limited (HML)

The Voting Directors of HML recommend that, in the absence of a Superior Proposal, you accept the JBL Offer to purchase all of your HML Shares for 0.95 JBL Shares per HML Share.

The Independent Expert has concluded that the JBL Offer is not fair but is reasonable for HML Shareholders not Associated with JBL.

This is an important document and requires your immediate attention.

If you are in doubt as to how to deal with this document, you should consult your legal, financial or other professional adviser immediately.

1. Introduction

1.1 Nature of this document

This document is a supplementary Target's Statement dated 29 March 2019. It is issued in accordance with Order 11 of the Takeovers Panel Orders made on 8 February 2019 (**Orders**) (**Third Supplementary Target's Statement**).

This Third Supplementary Target's Statement supplements, and must be read with, the target's statement issued by HML and dated and lodged with ASIC on 6 December 2018 (**Target's Statement**). It should also be read with the first supplementary target's statement dispatched in a form acceptable to ASIC on 19 February 2019 (**First Supplementary Target's Statement**) and the second supplementary target's statement dated and lodged with ASIC on 7 March 2019 (**Second Supplementary Target's Statement**).

Annexure A to this Third Supplementary Target's Statement is the independent expert's supplementary expert's report (**Supplementary Expert's Report**).

This is an important document and requires your immediate attention.

On 25 January 2019 the Takeovers Panel made a declaration of unacceptable circumstances in relation to the affairs of Henry Morgan Limited (**HML**) as they relate to the off-market takeover bid announced on 10 September 2018 by John Bridgeman Limited ACN 603 477 185 (**JBL**) (**Declaration**). As a result of the Declaration, the Panel made the Orders. The effect of the Orders was set out in HML's First Supplementary Target's Statement dated 19 February 2019.

On 22 March 2019, JBL dispatched its replacement bidder's statement (**Replacement Bidder's Statement**), being the Further Disclosure as defined by the Orders.

The purpose of the Third Supplementary Target's Statement is to:

(a) disclose the Voting Director's recommendation following consideration of JBL's Replacement Bidder's Statement and Supplementary Expert's Report; and

(b) provide the Supplementary Expert's report stating whether at the date of the Supplementary Expert's report JBL's bid is fair and reasonable following consideration of the Replacement Bidder's Statement, repayment of the JBL Loan, cancellation of the Concurrent Offer and cancellation of the acceptances.

1.2 Third Supplementary Target's Statement prevails

This Third Supplementary Target's Statement prevails over the Target's Statement, the First Supplementary Target's Statement and Second Supplementary Target's Statement to the extent of any inconsistency.

1.3 ASIC and ASX

A copy of this Third Supplementary Target's Statement was lodged with ASIC on 29 March 2019 and provided to the ASX on the same date.

Neither ASIC nor ASX, nor any of their respective officers, takes any responsibility for the content of this Third Supplementary Target's Statement.

1.4 Target's Statement definitions and interpretation apply

Capitalised terms used in this Third Supplementary Target's Statement have the same meaning given to them in the Target's Statement, unless defined otherwise in this Third Supplementary Target's Statement or the context otherwise requires.

Section 11.2 of the Target's Statement sets out certain rules on interpretation, which apply equally to this Third Supplementary Target's Statement.

2. Effect of Orders on HML Shareholders

2.1 All acceptances were cancelled on 19 February 2019

Order 3 of the Orders caused all acceptances received by JBL prior to the dispatch of JBL's Replacement Bidder's Statement complying with Order 8 (in a form acceptable to ASIC) to be cancelled. This occurred on 19 February 2019.

The Replacement Bidder's Statement contained a Replacement Application Form. If you wish to accept the JBL Offer after reading the Third Supplementary Target's Statement you should return the completed Replacement Application Form to JBL.

2.2 The JBL Offer is unconditional

The Panel has ordered that JBL may reintroduce any conditions in the Replacement Bidder's Statement which were contained in the Bidder's Statement.

JBL has not elected to reintroduce any Defeating Conditions. As a result, the JBL offer is now unconditional.

3. Takeovers Panel Orders

This section 3 addresses the additional disclosure provided by JBL in accordance with Order 8. Pages 5 and 6 of the Replacement Bidder's Statement sets out a table which signposts where these matters are addressed in the Replacement Bidder's Statement.

The Voting Directors urge all HML Shareholders to carefully consider the information referred to in the table. To the extent it impacts on whether the JBL Offer is fair and reasonable, the Voting Directors refer HML Shareholders to the Supplementary Expert's Report.

3.1 Order 8(b): Relationships

In sections 4.2 and 4.3 of the Replacement Bidder's Statement, JBL provided a description of its relationships with various relevant entities. The Voting Directors urge all HML Shareholders to carefully consider the information. The Voting Directors have no further comments on the nature of those relationships.

3.2 Order 8(c): Risk arising from JBL obtaining voting power of 50% or less

JBL has announced it will not be proceeding with the Concurrent Offer. Section 9.5 of the Replacement Bidder's Statement notes what risk may arise if less than 50% of HML's Shareholders accept the JBL Offer.

Where less than 50.1 percent of HML Shareholders accept the JBL Offer, there is a risk that HML Shareholders who accept the JBL Offer and become JBL shareholders will receive materially less value (which arises as JBL may hold a less than 50.1% interest in a listed investment company). This means that JBL's interest in HML may be classified as an equity investment of JBL, rather than as an entity which JBL controls and which may be consolidated for the purposes of JBL's accounts.

3.3 Order 8(d) and (e): Most recent financial statements of JBL

JBL released its financial report for the half year ended 31 December 2018 to the NSX on 14 March 2019 (**2019 half year report**). A copy of 2019 half year report is attached as Annexure A to the Replacement Bidder's Statement. The 2019 half year report is the second consecutive financial report to be prepared for JBL which has highlighted uncertainty as to the financial position of JBL. JBL's directors have addressed this issue in section 4.5 of the Replacement Bidder's Statement.

JBL's directors have expressed the view that JBL has adequate financial resources to continue as a going concern and that JBL and the consolidated entity (as that term is defined in the financial report the 2019 half year report) will be able to realise its assets and settle it liabilities in the normal course of business and at the amount stated in the 2019 half year report. HML Shareholders should carefully read the 2019 half year report, the Replacement Bidder's Statement, this Third Supplementary Target's Statement and the Supplementary Expert's Report and assess whether the indicated uncertainty is in accordance with your individual investment strategy. HML's directors recommend that you carefully consider the statements made by JBL's directors' in section 4.5 of the Replacement Bidder's Statement. The Independent Expert has had the benefit of the 2019 half year report in preparing the Supplementary Expert Report and assessing the nature of the bid. The Voting Directors' assessment of this issue is reflected in their recommendation to HML Shareholders.

3.4 Financial effect of relevant transactions - Order 8(f)

In section 4.3 of the Replacement Bidder's Statement, JBL directly addressed the financial effect of the transactions required by Order 8(d).

4. Amendments to the Target's Statement

The following are amendments to the Target's Statement.

4.1 Letter from Directors

The Letter from the Independent Board Committee on pages 2 and 3 is deleted and replaced with the following:

Dear Shareholders,

Background

On 10 September 2018 (Bid Announcement Date), JBL announced its intention to make an unsolicited takeover offer for all of the HML Shares in which it does not have a Relevant Interest (JBL Offer). At the Bid Announcement Date, JBL held a Relevant Interest in 3,579,811 HML Shares and Voting Power of approximately 11.07%. At the date of this this Third Supplementary Targets Statement, JBL holds a Relevant Interest in 7,741,779 HML Shares and Voting Power of 23.93%, which represents acceptances received by JBL since dispatch of the Replacement Bidder's Statement.

Pursuant to the Orders of the Takeovers Panel, JBL has now dispatched its Replacement Bidder's Statement allowing the bid to proceed. All acceptances must be provided by HML Shareholders using the Replacement Application Form which accompanied the Replacement Bidder's Statement.

Under the terms of the JBL Offer, you are being offered 0.95 JBL Shares per HML Share.

The JBL offer is unconditional.

The Voting Directors have carefully reviewed the JBL Offer and the Independent Expert's Report and recommend that in the absence of a Superior Proposal, HML Shareholders accept the JBL Offer for their HML Shares.

In these circumstances, and in forming their recommendation, your Voting Directors have carefully considered the following:

- *JBL's decision to allow the Concurrent Offer for BHD to lapse, and cancellation of plans to acquire JB Financial Group Pty Ltd on the terms it proposed in February 2018.*
- *the scale of the Merged Group compared with the potential impact of HML remaining a micro-cap listed investment company listed on the ASX;*
- *the impact of the suspension of trade of HML Shares on the ASX since 8 June 2017 and the likely de-listing of HML by the ASX in the second half of the 2019 calendar year, given upcoming changes to the ASX Listing Rules; and*
- *the liquidity which may be available for HML Shareholders in the event that the JBL Offer is successful and the fact that HML Shareholders will own shares in the Merged Group (noting that position is highly dependent on the liquidity for JBL Shares on the NSX).*

The Independent Expert has concluded in that the Supplementary Expert's Report the JBL Offer is not fair but is reasonable to HML Shareholders not Associated with JBL. The basis for this conclusion is summarised in this Third Supplementary Target's Statement and set out in full in the Supplementary Expert's Report attached as Annexure A.

As at the date of this Target's Statement, no Superior Proposal has emerged. The Voting Directors consider that it is unlikely a superior offer will emerge from another bidder, given JBL's role as HML's investment manager and JBL's Relevant Interest in HML Shares and the fact that HML remains suspended from trade on the ASX.

These, and other, reasons for recommending that you accept the JBL Offer, in the absence of a Superior Proposal, are discussed in more detail in Section 5 of this Third Supplementary Target's Statement.

Further important information

This Third Supplementary Target's Statement contains HML's formal response to the JBL Offer following the dispatch of the Replacement Bidder's Statement. The Supplementary Expert's Report is set out in Annexure A. The directors of HML strongly encourage you to read all the information contained in this Third Supplementary Target's Statement carefully (including the Supplementary Expert's Report) and to seek independent advice before deciding whether or not to accept the JBL Offer.

The JBL Offer is scheduled to close at 7:00pm (Sydney time) on 15 April 2019. To accept the JBL Offer, you should follow the instructions outlined in the Replacement Bidder's Statement and the Acceptance Form.

HML Shareholders should note that there are risks associated with continuing investment in HML as well as risks associated with accepting the JBL Offer. The key risks are set out in Section 10 of this Third Supplementary Target's Statement. Many of these risks are outside the control of HML and its Directors and cannot be mitigated.

No action is required if you decide not to accept the JBL Offer.

If you need any more information about the JBL Offer, we recommend that you seek professional advice, or call 1300 660 106 (within Australia) or +61 1300 660 106 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).

5. Reasons why you should accept the JBL Offer

Section 1 of the Target's Statement is deleted and replaced with section 5 of this Third Supplementary Target's Statement, which summarises the key reasons why, after consideration of the Supplementary Expert's Report and all other relevant matters, the Voting Directors recommend to HML Shareholders that they accept the JBL Offer, in the absence of a Superior Proposal.

5.1 The Independent Expert has concluded that the JBL Offer is not fair but is reasonable for HML Shareholders not Associated with JBL

The IBC appointed the Independent Expert to prepare an Independent Expert's Report on the JBL Offer. The Panel ordered[1] that the Supplementary Expert's Report be prepared. It is attached as Annexure A. The Independent Expert concluded in the Supplementary Expert's Report that the JBL Offer is not fair but is reasonable for HML Shareholders not Associated with JBL. This conclusion remains unchanged from the conclusion reached in the Independent Expert's Report which accompanied the Target's Statement.

The Independent Expert considers that the JBL Offer is not fair to HML Shareholders not Associated with JBL. The Independent Expert has determined that the value of an HML Share (on a control basis) is above the fair market value of the JBL Offer Consideration in the Merged Group (on a minority basis) offered to HML Shareholders as consideration. Accordingly the JBL Offer is not fair.

The Independent Expert has assessed the value of a HML Share at between 81 cents and 91 cents, whilst the fair market value of the JBL Offer Consideration (assuming 100% of HML Shareholders accept the JBL Offer) is between 45 cents and 51 cents per HML Share. The Offer Consideration is a discount to the assessed value of an HML Share of between 37 cents and 40 cents per HML Share.

As HML has been suspended from trade on the ASX since 8 June 2017 and is otherwise a thinly traded stock, its last trading price may not be a reliable guide to the fair value of HML Shares.

In order to assess whether the JBL Offer is fair and reasonable, the Independent Expert has considered the impact of the Orders and assessed:

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[1] Order 11(b).

(a) *whether the JBL Offer is fair by comparing the value of a HML Share (on a control basis) to the fair market value of the Offer Consideration on a minority basis; and*

(b) *the JBL Offer as reasonable, despite it not being fair, as the Independent Expert has opined that the advantages to non-Associated HML Shareholders outweigh the disadvantages of the JBL Offer.*

The Independent Expert has also noted that the analysis undertaken in the preparation of the Supplementary Expert's Report showed no significant changes in the underlying businesses or their outlooking since the issuance of the Independent Expert's Report or as a consequence of the Panel Orders which had no meaningful impact on the assessed value of JBFG, HML or the Merged Group (other than repayment of the JBL Loan (as that term is defined in the Panel Orders)).

The Voting Directors encourage HML Shareholders to read the Independent Expert's Report and the Supplementary Expert's Report in their entirety before making a decision as to whether or not to accept the JBL Offer.

Taking these factors into consideration, the Voting Directors recommend that HML Shareholders accept the JBL Offer in the absence of a Superior Proposal.

5.2 The JBL Offer delivers certain value for your HML Shares

The Offer Consideration of 0.95 JBL Shares per HML Share provides HML Shareholders with the opportunity to realise value for their entire HML investment. If you accept the JBL Offer, you will cease to be exposed to the risks associated with an investment in HML (see Section 10 of this Third Supplementary Target's Statement).

If you retain your HML Shares, the price which you will be able to realise is more uncertain and you will continue to be exposed to the risks associated with being a HML Shareholders. The key risk factors for remaining a HML Shareholders are discussed in section 10 of this Third Supplementary Target's Statement.

The Independent Expert has assessed the value of a HML Share (on a control basis) at between 81 cents and 91 cents, whilst the fair market value of the JBL Offer Consideration is between 45 cents and 51 cents per HML Share (assuming 100% of HML Shareholders accept the JBL Offer). The Offer Consideration is a discount to the assessed value of an HML Share of between 37 cents and 40 cents per HML Share.

As HML has been suspended from trade on the ASX since 8 June 2017 and is otherwise a thinly traded stock, its last trading price is not a reliable guide to the fair market value of HML Shares.

If you accept the JBL Offer, you will:

(a) *receive 0.95 JBL Shares for each of your HML Shares;*

(b) *not incur any brokerage fees which would likely be incurred if you were to sell your HML Shares on-market (assuming the reinstatement of trading of HML Shares on the ASX); and*

(c) *subject to you providing the relevant documents to JBL with your acceptance, receive your Offer Consideration within one month of the JBL Offer being accepted by you.*

The JBL Offer is unconditional.

5.3 The JBL Offer will result in you holding JBL Shares in the Merged Group

HML is a listed investment company:

(a) *focused on building a portfolio of investments selected by its investment manager, JBL, including equities, currencies, bonds, derivatives, commodities and unlisted securities; and*

(b) *intent on following a long term philosophy of seeking undervalued assets across all asset classes including, but not limited to currencies, global equities and unlisted securities.*

In contrast, the principal activities of JBL consists of providing investment management services to listed and unlisted investment companies, including BHD, HML, Bartholomew Roberts Pty Ltd and the JB High Alpha Fund, as well as investing either directly or indirectly in listed and unlisted companies in a variety of sectors.

In addition to the relevant investment management services agreement, JBL holds the following interests in each of those entities:

(a) *9.78% in HML;*

(b) *51.71% in Bartholomew Roberts Pty Ltd; and*

(c) *0.19% in BHD.*

JBL has indicated in its Replacement Bidder's Statement that it intends to continue to act as investment manager under the current terms of the Management Services Agreement with HML if the JBL Offer is successful.

As set out in the Second Supplementary Target's Statement, the Merged Group has substantively changed form since previously advised on by the Voting Directors in the Target's Statement. On 4 March 2019, JBL announced it will not proceed with its proposed acquisition of JB Financial Group Pty Ltd on the terms it proposed in February 2018. JBL did not indicate whether new terms would be proposed. Further, on 5 March 2019, JBL announced it will not proceed with the Concurrent Offer to BHD securityholders for all of the shares and options in BHD. These matters have been taken into account by the independent expert and the Voting Directors.

If the JBL Offer is successful, your investment in JBL will be an investment in the Merged Group which will include operations as an investment manager with HML becoming a subsidiary investment company.

You may believe that an investment in the Merged Group may meet your investment objectives.

5.4 The Offer Consideration will trade on the NSX

The Offer Consideration will trade on the NSX. The NSX is an alternative Australian securities exchange which has a financial and continuous disclosure regime which largely corresponds to the regime of the ASX. Securities listed on the NSX trade through brokers on the CHESS platform.

The NSX is a smaller exchange than the ASX (where HML shares are currently listed). HML has been suspended from trade on the ASX since 8 June 2017. At the date of this Target's Statement, the ASX has indicated that it will not lift the suspension at this time, pending their further queries. However, the ASX is currently unable to specify the nature of their further queries or the estimated date by which HML will receive these queries.

HML is taking every reasonable step to have the suspension lifted and is ensuring that it is doing all things lawfully required to enable this to happen for the benefit of HML Shareholders. However, there is no certainty as to when or if the suspension will be lifted.

HML further notes the pending amendments to the ASX Listing Rules which are proposed to come into effect from 1 July 2019 and indicate that listed entities which have been suspended for a period of more than 2 years may be de-listed at the discretion of the ASX. HML has been suspended since 8 June 2017, and will have been suspended for more than 2 years when they commence, if not reinstated to trading on the ASX by that time.

The Offer Consideration for your HML Shares is JBL Shares which will be listed on the NSX. As a result, these JBL Shares will be able to be sold on-market to exit your investment if you so desire.

5.5 No Superior Proposal has emerged as at the date of this Target's Statement

As at the date of this Third Supplementary Target's Statement, no alternative proposals to the JBL Offer have been put to HML or are currently under consideration by HML, and the Voting Directors are not aware of any other offer or proposal that might be an alternative to the JBL Offer.

In light of JBL's role as investment manager of HML and the unconditionality of the JBL Offer the Voting Directors consider that it is unlikely that a Superior Proposal will be forthcoming before the end of the Offer Period.

If a competing proposal is received prior to the end of the Offer Period, the Voting Directors will carefully consider the proposal and advise HML Shareholders of their recommendation.

5.6 There are risks to not accepting the JBL Offer

If you choose not to accept the JBL Offer, there are a number of potentially adverse consequences of which you should be aware.

(a) ***You will continue to be exposed to the risks associated with being a HML Shareholder***

There are a number of risks which may affect the future operating and financial performance of HML. If you choose not to accept the JBL Offer, you will continue to be exposed to these risks associated with being a HML Shareholder, including in relation to:

(i) *the risk that HML will not be reinstated to trading on the ASX;*

(ii) *the risk that the ASX will exercise its discretion under the ASX Listing Rules to remove HML from the official list of the ASX;*

(iii) *even if reinstated, the ASX may continue to express concerns regarding HML such that the risk of suspension continues to such an* *extent that the HML Board considers steps to delist HML from the ASX[2];*

(iv) *HML business risks may affect HML's ability to achieve its objectives including:*

(A) *any variation in global or local equity markets, global or local bond markets or in the value of the Australian dollar against other major currencies; and*

(B) *any investment decisions made by JBL in its capacity as HML's investment manager that may lead to negative returns being realised by HML.*

The investment approach of JBL is based on the experience of JBL's staff, research into past data and the application of research into mathematical models that attempt to forecast or understand resultant financial risk and returns.

However, there can be no assurance of HML's profitability and HML Shareholders may suffer a loss in either the short or longer term.

HML Shareholders should refer to Section 10 of this Third Supplementary Target's Statement for further information regarding the risks associated with an investment in HML.

(b) ***Risk of compulsory acquisition***

If JBL proceeds to compulsory acquisition following the end of the Offer Period (which it has stated that it intends to do where it is entitled to do so), your HML Shares will be compulsorily acquired and you will receive the same consideration that you would have received under the JBL Offer. However, you are unlikely to receive the consideration at the same time as those HML Shareholders who accept the JBL Offer albeit at a later time..

(c) ***Risk of becoming a minority shareholder***

The JBL Offer is unconditional. If you have not accepted the JBL Offer by the end of the Offer Period in respect of all of your HML Shares, you may become a minority HML Shareholder in a company controlled by a single large HML Shareholder, being JBL. Depending on the number of acceptances received, JBL may have control of the company which may reduce liquidity of HML Shares.

This may make it more difficult to sell your HML Shares outside the JBL Offer at current price levels. Refer to Section 8.1 regarding the possible implications of becoming a minority HML Shareholders.

There is also a possibility of HML being delisted following the JBL Offer, depending on the level of acceptances. JBL has stated in its Bidder's Statement that where it acquires between 50% and 90% of HML Shares, it intends to procure that HML be removed from the official list of the ASX (subject to HML Shareholder approval where necessary). This means you

[2] HML Shareholder approval would be required for HML to take steps to remove HML from the official list of the ASX. Shareholder approval is not required in circumstances where the ASX exercises its discretion to remove HML from the official list of the ASX.

may be a shareholder in an unlisted company controlled by JBL with no exit mechanism for your investment other than an off-market transfer of your shares.

6. Reasons why you may decide not to accept the JBL Offer

In addition to the matters set out in section 2 of the Target's Statement, this section of this Third Supplementary Target's Statement expands on reasons why you may decide not to accept the JBL Offer.

6.1 The Independent Expert has concluded that the JBL Offer is not fair but reasonable to non-Associated HML Shareholders

The Independent Expert has valued at HML share between 81 cents and 91 cents (on a control basis) and the JBL Offer Consideration (assuming 100% of HML shareholders accept the JBL Offer) is between 45 cents and 51 cents per HML Share. As a result, the value of a HML Share (on a control basis) is above the fair market value of the 0.95 cents per share in the Merged Group (on a minority basis) to be received by HML Shareholders who accept the JBL Offer as consideration.

6.2 Financial reports repeatedly present uncertainty as to JBL continuing as prepared on a going concern

JBL released its financial report for the half year ended 31 December 2018 to the NSX on 14 March 2019 (**2019 half year report**). A copy of the 2019 half year report is attached as Annexure A to the Replacement Bidder's Statement. The 2019 half year report is the second consecutive financial report to be prepared for JBL which has highlighted uncertainty as to the financial position of JBL.

JBL's directors have addressed this issue in section 4.5 of the Replacement Bidder's Statement. JBL's directors have expressed the view that JBL has adequate financial resources to continue as a going concern and that JBL and the consolidated entity (as that term is defined in the financial report the 2019 half year report) will be able to realise its assets and settle its liabilities in the normal course of business and at the amount stated in the 2019 half year report.

HML Shareholders should carefully read the 2019 half year report, the Replacement Bidder's Statement, this Third Supplementary Target's Statement and the Supplementary Expert's Report and assess whether the uncertainty as to the financial position of JBL is in accordance with your individual investment strategy. HML's directors recommend that you carefully consider the statements made by JBL's directors in section 4.5 of the Replacement Bidder's Statement.

The Independent Expert has had the benefit of the 2019 half year report in preparing the Supplementary Expert Report and assessing the nature of the bid. The Voting Directors' assessment of this issue is reflected in their recommendation to HML Shareholders.

6.3 Risk of JBL obtaining voting power of less than 50% in HML

Where less than 50.1 percent of HML Shareholders accept the JBL Offer, there is a risk that HML Shareholders who accept the JBL Offer and become JBL Shareholders will receive materially less value (which arises as JBL may hold a less than 50.1% interest in a listed investment company). This means that JBL's interest in HML may be classified as an equity investment of JBL, rather than as an entity which JBL controls and which may be consolidated for the purposes of JBL's accounts.

7. Frequently asked questions

In addition to the matters set out in section 3 of the Target's Statement, the Voting Directors answer the following questions arising from the Orders and matters set out by JBL in the Replacement Bidder's Statement.

Question	*Answer*
What are the conditions of the JBL Offer?	*The JBL Offer is not subject to any conditions. This means your acceptance of the JBL Offer will no longer be subject to any, or the waiver of any, defeating conditions.*
How long is the JBL Offer open for?	*The JBL Offer opened on 6 November 2018 and is presently scheduled to close at 7:00pm (Sydney time) on 15 April 2019 (unless extended).*
Is the same independent expert responsible for the Independent Expert's Report and Supplementary Expert's Report.	*Yes. Leadenhall Corporate Advisory Pty Ltd has produced the Independent Expert's Report and Supplementary Expert's Report.*
What does the independent expert conclude?	*The Independent Expert has concluded that the JBL Offer is not fair, but is reasonable to non-Associated HML Shareholders. This opinion has not changed since the issue of the Independent Expert's Report and the Independent Expert has indicated that there have been no significant changes in the underlying businesses or their outlook since the Independent Expert's Report or as a consequence of the Panel Orders which have had any meaningful impact on the assessed value of HML, JBFG or the Merged Group (other than repayment of the JBL Loan).* *HML Shareholders should read the Supplementary Expert's Report in full and in conjunction with the Independent Expert's Report.*
What are the Voting Directors recommending?	*The Voting Directors recommend that, in the absence of a Superior Proposal, HML Shareholders accept the JBL Offer.*
Are there any reasons why I might not accept the JBL Offer?	*There are risks associated with accepting the JBL Offer. These are set out in this Third Supplementary Target's Statement, section 9.3 of the Replacement Bidders Statement and summarised below.*
What are the specific risks associated with an investment of JBL?	*Section 10 of this Third Supplementary Target's Statement sets out the risks associated with the JBL Offer.*

Question	*Answer*
	JBL has advised in the Replacement Bidder's Statement that the specific risks associated with an investment in JBL are: *(a) JBL may be unable to achieve its objectives as investment manager of the entities for which it acts in this capacity;* *(b) JBL is dependent upon the talent and experience of its key personnel and may be negatively impacted if such people leave;* *(c) the level of liquidity of JBL Shares on the NSX market may be lower than on other, larger and more established markets;* *(d) a fall in equity markets, bond markets or a lack of change in the Australian dollar against other currencies may discourage the movement of money into or out of equity markets and adversely impact the value of JBL's assets;* *(e) risks associated with using derivatives for investment, hedging, leverage and investment implementation and exit purposes;* *(f) risks associated with taking short futures positions;* *(g) dependence by JBL upon its investment management agreements;* *(h) dependence by JBL upon the performance and management fees generated by JBL as an investment manager;* *(i) JBL's ability to achieve its performance objectives, produce returns that are positive or compare favourably against its peers;* *(j) JBL's current investment portfolio is heavily focussed on investments in unlisted companies which may mean that achieving a return on investment is more difficult than in larger capitalised or listed companies. For example, JBL's investment in JB Financial Group constitutes approximately 40% of JBL's investment portfolio;* *(k) concentration risk may mean that poor performance in a specific market may significantly affect JBL. In addition, JBL's investments concentrate risk on the financial services industry;* *(l) JBL has an investment of approximately $14 million in Bartholomew Roberts Pty Ltd, which is invested in the retail food industry. Risks associated with this industry include concentration risk, property risk, market disruptors (in particular in the form of delivery aggregators) and competition, rising inflationary costs, labour and electricity costs, and funding risks;*

Question	Answer
	(m) overseas investments of JBL are subject to exchange rate volatility which may reduce the value of JBL's assets; *(n) entities upon which JBL's investments depend may default on their obligations to JBL;* *(o) governments or regulators may pass laws, create policy or implement regulation that affects JBL or its assets;* *(p) JBL's investments may be difficult or impossible to sell;* *(q) changes in the prices of future positions held by JBL may result in loss of principal or large movements in JBL's share price within short or long periods of time;* *(r) leverage risk may mean that gains and losses may be significantly greater than those in a company that is not leveraged;* *(s) JBL's investment approach is based upon the experience of the investment manager and research into data and mathematical models that attempt to forecast returns, risk, correlation and transaction costs, which may mean that the investment system implemented by JBL may not generate profitable trading signals;* *(t) JBL may be exposed to certain risks in respect of collateral delivered to counterparties in respect of derivatives arrangements;* *(u) JBL may not be undertake its investment activities if it ceases to be an authorised representative of JB Markets Pty Ltd (AFSL No. 323182); and* *(v) the most recent audit opinions of JBL and JB Financial Group refer to a material uncertainty regarding going concern.* *These risks are described in further detail in section 9.2 of the Replacement Bidder's Statement.* *Specific transaction risks associated with the JBL Offer are:* *(a) the consideration under the JBL Offer is new JBL Shares and accordingly:* *(i) the value of the consideration may fluctuate depending on the value of the JBL Shares from time to time;* *(ii) there may be an adverse impact on the market price of JBL Shares, should JBL Shareholders or current HML Shareholders who accept the JBL Offer seek to sell JBL Shares on market; and*

Question	Answer
	(iii) the value of JBL Shares at the date of their issue to HML Shareholders may vary from their value on the date of acceptance of the JBL Offer; (b) it is possible that JBL may not acquire all HML Shares under the JBL Offer; (c) where JBL obtains voting power of less than 50% in HML, HML Shareholders may receive materially less value than if JBL obtains voting power of more than 50% in HML; (d) JBL may not receive sufficient acceptances under the JBL Offer for CGT rollover relief to be available to HML Shareholders; and (e) as the consideration payable under the JBL Offer consists of JBL Shares, the interests of JBL Shareholders (including HML Shareholders who accept the JBL Offer) will be diluted to some degree.
What happens if I don't accept the JBL Offer?	*If you do not accept the JBL Offer, you will remain a HML Shareholder and will not be issued JBL Shares.* *However, if JBL becomes entitled to compulsory acquire your HML Shares, it intends to do so. If this occurs, you will still receive JBL Shares for your HML Shares but at a later date than you would have received it if you had accepted the JBL Offer.* *If JBL acquires 90 percent or more of the HML Shares and is entitled to proceed to compulsory acquisition of the outstanding HML Shares and elects to do so, JBL intends to amend the constitution of HML and seek to delist HML.* *If JBL acquires more than 50%, but less than 90% of HML, and gains effective control of HML, JBL would have control of a voting majority in HML and would be in a position to control the composition of HML's board.* *In such a situation, JBL's current intention is to reduce the number of directors of HML to three. JBL has not currently determined the identity of those directors and would do so at the relevant time.* *If JBL acquires 75% or more of HML Shares it intends to seek removal of HML from ASX. To the extent that HML is not a wholly owned subsidiary of JBL and there are minority shareholders of HML, JBL intends to ensure that any JBL nominees appointed to the board of HML act at all times in accordance with their fiduciary* *duties and that all requisite shareholder approvals and other legal requirements are complied with. Except for the changes and intentions set out in section 8 of this document, JBL currently intends to continue the existing business of HML (which may change as new*

Question	*Answer*
	information becomes available or circumstances change).
How do I accept the JBL Offer?	*Instructions on how to accept the JBL Offer are set out in Section 3 of the Replacement Bidder's Statement and the Replacement Acceptance Form which accompanies the Replacement Bidder's Statement (and is printed on yellow paper). If you wish to accept the JBL Offer, you should follow these instructions carefully to ensure that your acceptance is valid. Any previously submitted acceptance on an original acceptance form has been cancelled by order of the Takeover Panel.*
If I accept the JBL Offer, when will I receive consideration for my HML Shares?	*JBL Shares will be issued within one month of the date you accept the JBL Offer. In any event, you will be issued JBL Shares within 21 days after the JBL Offer closes (subject to any withdrawal of the JBL Offer in accordance with the Corporations Act).*
How do I reject the JBL Offer?	*To reject the JBL Offer, you do not need to do anything.*
If I accepted the JBL Offer after 22 March 2019, can I withdraw my acceptance?	*If you have accepted the JBL Offer since 22 March 2019, your acceptance is irrevocable. The effect of your acceptance is explained in section 6 of the Replacement Bidder's Statement.* *This means that once you have accepted the JBL Offer, you will be unable to revoke your acceptance and the contract resulting from your acceptance will be binding on you, unless the circumstances set out in section 650E of the Corporations Act apply.*

8. JBL's intentions upon acquisition of HML Shares

Sections 6.4 to 6.6 of the Target's Statement concern JBL's stated intentions upon acquiring varying percentages of HML Shares. Those sections are deleted and replaced with the following statements.

8.1 JBL's intentions upon acquisition of 90% or more of HML Shares

This section sets out JBL's current intention if it acquires 90 percent or more of the HML Shares and is entitled to proceed to compulsory acquisition of the outstanding HML Shares.

Compulsory acquisition

If it becomes entitled to do so, JBL intends to compulsorily acquire any outstanding HML Shares under section 661B Corporations Act.

In those circumstances, JBL is also entitled to acquire HML Shares issued after the JBL Offer closes but before the compulsory acquisition notice is given (under *section 661A(4)(b) Corporations Act), up to six weeks after the notices are given (under section 661A(4)(c) Corporations Act).*

JBL also has the right, under part 6A.2 of the Corporations Act, to seek to compulsorily acquire any of the HML Shares which it has not acquired or have not been exercised if JBL:

(a) *achieves 90 percent voting power in HML; and*

(b) *holds full beneficial interests in at least 90 percent by value of all securities of HML that are either HML Shares or convertible into HML Shares.*

If there are any HML Shares outstanding, JBL intends to compulsorily acquire those HML Shares if it is able to do so.

Amend HML constitution

JBL intends to amend the constitution of HML to reflect its status as a wholly-owned subsidiary of JBL and will seek to convert HML from a public company to a proprietary company.

ASX listing

After conclusion of the compulsory acquisition process, JBL intends to procure that HML be removed from the official list of ASX.

Directors

JBL intends to replace all members of the HML Board and of the board of any company on which HML has nominee directors with JBL nominee directors. Those nominees have not yet been identified by JBL.

Operations

In terms of HML's operations, JBL has stated it intends to:

(a) *evaluate the performance, prospects and strategic relevance of HML investments to JBL;*

(b) *consider whether to realise any of HML's investments and make a return of capital;*

(c) *explore other investment strategies for HML; and*

(d) *make appropriate provisions for any of HML's ongoing liabilities.*

8.2 *JBL's intentions upon acquisition of between 50% and 90% of HML Shares*

This section sets out JBL's current intentions if, by virtue of acceptance of the JBL Offer, it was to gain effective control of HML but was not entitled to proceed to compulsory acquisition of the outstanding HML Shares.

Composition of HML's Board

JBL intends to reduce the number of HML's directors to three. It has not determined the identity of those directors and states it will do so at the relevant time.

Compulsory acquisition

If JBL does not become entitled to compulsorily acquire HML Shares under section 661B Corporations Act, it may nevertheless become entitled to exercise the general compulsory acquisition power under part 6A.2 Corporations Act in the future. JBL intends to exercise that power over the HML Shares if it becomes entitled to do so.

ASX listing

ASX guidance indicates that ASX would likely approve an application for HML to be removed from the official list of ASX without the need for shareholder approval if an application is made within a month of the end of the Offer Period if:

(a) *at the end of the Share Offer, JBL owns or controls at least 75% of the HML Shares and the Share Offer remained open for at least two weeks after JBL attained ownership or control of at least 75% of the HML Shares; and*

(b) *the number of HML Shareholders (other than JBL) having holdings with a value of at least $500 is fewer than 150.*

In addition, ASX guidance indicates that ASX would likely approve an application for HML to be removed from the official list of ASX with shareholder approval, and where such removal is sought later than 12 months after the close of the Share Offer, JBL would be entitled to vote on the resolution approving the removal. JBL intends to apply to ASX for HML to be removed from the official list of the ASX if it is able to make such an application to the ASX and it is approved.

8.3 JBL's intention upon acquisition of less than 50% of HML Shares

To the extent JBL gains effective control of less than 50% of HML Shares JBL has stated that it intends to endeavour to implement its intentions to the extent it is able to do so, subject to the limitations noted in that section.

HML Shareholders are referred to section 10 of this Third Supplementary Target's Statement which outlines the risks associated with JBL acquiring less than 50% of HML's Shares.

9. Details about the JBL Offer

Section 7 of the Target's Statement sets out relevant details of the JBL Offer. Those sections are varied and emphasised as follows.

9.1 Offer Period

The JBL Offer may be accepted from 22 March 2019 until 15 April 2019 (7:00pm Sydney time) unless extended or withdrawn.

9.2 Conditions

The JBL Offer is unconditional. Once you have accepted the JBL Offer, you will be unable to revoke your acceptance and the contract resulting from your acceptance will be binding on you, unless the circumstances set out in section 650E of the Corporations Act apply.

9.3 Effect of acceptance

The effect of acceptance of the JBL Offer is set out in Section 4.2 of the Target's Statement.

In summary, HML Shareholders who accept the JBL Offer will give up their right to sell their HML Shares on the ASX or otherwise deal with their HML Shares while the JBL Offer remains open.

Accepting HML Shareholders will also lose their ability to accept a Superior Proposal (if one emerges).

If you accept the JBL Offer, you will be obliged to sell your HML Shares to JBL and you will receive the relevant Offer Consideration under the JBL Offer for those HML Shares. Your acceptance is irrevocable.

9.4 Withdrawal of your acceptance

The section titled, "Acceptance made before 22 November 2018", is deleted.

Your acceptance is unconditional and cannot be withdrawn.

9.5 Acceptance made before 22 March 2019

Pursuant to the Orders, any acceptance provided to JBL prior to 19 February 2019 were cancelled on or about that date.

9.6 Acceptance made after 22 March 2019

If you wish to accept the JBL Offer after reading this Third Supplementary Target's Statement and the Supplementary Expert's Report you must return the Replacement Acceptance Form (printed on yellow paper) attached to the Replacement Bidder's Statement.

10. Risk factors

Section 8 of the Target's Statement sets out the risks associated with accepting and not accepting the JBL Offer. For simplicity, those risks have been set out again in sections 10.2 to 10.5 of this Third Supplementary Target's Statement. Below are additional risks which have arisen since the dispatch of the Target's Statement and must be read in conjunction with all risks set out in section 10 of this Third Supplementary Target's Statement and taken into account when deciding whether to accept the JBL Offer.

10.1 Additional risks

(a) **Risk that HML Shareholders will receive materially less value if JBL only obtains voting power of 50% or less in HML**

The JBL Offer is unconditional. This means that there is no minimum acceptance threshold and JBL will proceed with the JBL Offer regardless of the number or percentage of acceptances received from HML Shareholders. If JBL obtains voting power of 50% or less in HML, JBL may not be able to achieve its stated aims and value of the Merged Group may be materially less.

(b) **Amendments to ASX Listing Rules Guidance Note 33**

On 28 November 2018, ASX Limited released a consultation paper on proposed measures to simplify, clarify and enhance the integrity and efficiency of, its listing rules. In section 9.8 of the consultation paper, it discussed amending the ASX policy of automatically removing an entity from the official list if the entity's securities have been suspended from trading for a continuous period of 3 *years. The ASX has proposed reducing the deadline to 2 years with effect from 1 July 2019.*

Since 8 June 2017, HML has been suspended from quotation. If the ASX amends its policy as proposed, it will move to delist HML in July 2019. While there remains a short period of time for HML to take steps to cease the suspension, the ASX has not yet identified what HML is required to do to cease the suspension. The directors consider there is considerable risk that HML will be delisted at the ASX's discretion.

(c) **CGT rollover relief**

Prior to the Declaration, acceptances of the JBL Offer indicated that the criterion for the availability of CGT rollover relief would not be satisfied, being JBL increasing its holding in HML to at least 80%. As such, there is risk that HML Shareholders may not have access to CGT rollover relief in the event their acceptance causes a capital gain.

As there are no conditions attached to the JBL Offer, the CGT event will occur when you accept the JBL Offer rather than when you receive the Offer Consideration.

10.2 Risks associated with rejecting the JBL Offer and continuing as a HML Shareholder

This section describes some of the potential risks associated with HML's business and an investment in HML. An investment in HML exposes investors to the specific and general risks facing HML's business. Each of these risks could, if they eventuate, have a material adverse effect on your investment. If any of the risks eventuate, they could also have a material adverse effect on HML's business, financial condition, operating and financial performance and financial return to HML Shareholders. Many of the circumstances giving rise to these risks are beyond the control of HML, its Directors and management.

The risk factors set out below are not exhaustive. Additional risks of which HML is unaware or that HML currently considers to be immaterial also have the potential to have a material adverse effect on HML's business, financial condition and operating and financial performance.

HML Shareholders should carefully consider and evaluate HML and its business and whether they should continue to hold HML Shares, having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors, as set out below. HML Shareholders should examine the full content of this Target's Statement and may wish to consult their financial or other advisers before deciding whether or not to accept the JBL Offer.

10.3 Risks specific to an investment in HML

(a) **Current suspension from trading on ASX**

HML Shares have been suspended from trading on the ASX since 8 June 2017. In relation to the continuing suspension of trading in HML Shares, the ASX has indicated that it will not lift the suspension at this time, pending their further queries. As at the date of this Target's Statement the ASX has not specified the nature of their further queries or the estimated date by which HML will receive these queries or any action which HML can take to be reinstated to the official list of the ASX.

The ASX has a discretion under the ASX Listing Rules to remove an entity from the official list of the ASX if, in the ASX's opinion:

(i) *the listed entity is unable or unwilling to comply with, or breaks, a listing rule;*

(ii) *the entity has no quoted securities; or*

(iii) *the ASX determines that the removal is appropriate for some other reason.*

There is a risk that the ASX could exercise its discretion under the ASX Listing Rules and determine that HML is no longer capable of being listed on the ASX. There is no mechanism for automatic removal of HML from the official list, however the discretion of the ASX under the Listing Rules is broad and the ASX has not articulated to HML as to the steps it can take to cease being suspended.

HML is taking every reasonable step to have the suspension lifted, and is ensuring that it is doing all things lawfully required to enable this to happen for the benefit of HML Shareholders. However in the absence of any clarification from the ASX to HML there is no certainty as to when, or if, the suspension will be lifted.

If HML is removed from the official list of the ASX, HML Shares will be unlisted and you will only be able to transfer or sell your shares off-market.

(b) ***Lifting of suspension of trading HML Shares on the ASX***

HML Shares have been suspended from trading on the ASX since 17 June 2017. If the ASX determines that HML is able to be trading on the ASX it is possible that HML Shares may trade at a significant discount to the last trading price of $1.99 per HML Share given the elapse of time since HML Shareholders were able to facilitate on-market transactions for their HML Shares and general market sentiment.

(c) **Liquidity risk**

There is risk that HML's underlying investment portfolio may not be easily sold when the investment manager decides it is an appropriate time for investments within the portfolio to be sold. A lack of liquidity could result in a loss if the delay in the sale of an investment results in the decline in value of the investment. This will be especially relevant to any investments in products which are not exchange traded such as unlisted equities.

(d) **Listed investment company risks**

HML is a listed investment company. The share price of a listed investment company may trade at a premium or discount to net tangible asset backing per share. The operations and financial performance of listed investment companies are driven by a number of factors, including:

(i) *domestic and international financial markets;*

(ii) *domestic and international economic and political events; and*

(iii) *the applicable regulatory environment in Australia and internationally.*

(e) **Market risk**

Investment returns are influenced by general market factors internationally and by factors specific to each security. In particular, the market price of the shares in many listed entities have in recent times experienced wide fluctuations which in many cases reflect a diverse range of non-entity specific influences including:

(i) *general economic conditions, including change in inflation rates, short-term or long term interest rates, exchange rates and commodity prices;*

(ii) *variations in the local and global markets for listed securities;*

(iii) *domestic and international economic conditions;*

(iv) *changes in investor confidence generally and in relation to specific sectors of the market;*

(v) *natural disasters, global hostilities and acts of terrorism;*

(vi) *changes to government policy, legislation or regulation including in relation to taxation and other policy changes; and*

(vii) *the inclusion or removal of stocks from major market indices.*

(f) **Currency risk**

For investments in global assets which have currency exposure, there is potential for adverse movements in exchange rates to reduce their Australian dollar value and, therefore, the value of HML's portfolio.

Foreign exchange fluctuations may have a positive or adverse impact on the investment returns of HML. HML's foreign currency exposure may be over or under hedged or not hedged at all. It may not always be possible to hedge all foreign currency exposures and there is no guarantee that any hedging will be successful. HML may also hedge the exposure of other investments in HML against investment loss, but is under no obligation to do so. There is no guarantee that any hedging will be successful. The cost of implementing hedging may be significant.

(g) **Derivatives risk**

There is a risk that the use of derivatives can have a negative impact on HML's portfolio due to an adverse movement in the underlying asset or where the position is difficult or costly to reverse or maintain. Derivative instruments include futures, futures options, over-the-counter products, exchange-traded options, swaps and forward contracts.

The value of all derivatives is 'derived' from underlying assets, such as company shares, commodities and bonds. Derivatives such as futures and options may be used by HML:

(i) *in seeking to offset the risk of price variations of securities;*

(ii) *as an alternative to purchasing the underlying security;*

(iii) *to seek to take advantage of any opportunities for profit which may exist in the market from time to time; and*

(iv) *in the management of currency and interest rate risk.*

In all cases, there must be cash and/or underlying assets available to meet the exposure positions of the derivative instruments.

Risks associated with using derivatives include the value of the derivative failing to move in line with the underlying asset, potential illiquidity of the derivative, HML not being able to meet payment obligations as they arise, regulatory risk and counterparty risk (this is where the counterparty to the derivative contract cannot meet its obligations under the contract). HML employs derivatives for investment, hedging, leverage and investment implementation and exit purposes.

General risks such as liquidity, counterparty or market risks can be magnified by the use of derivatives because of the leverage effect they exert on HML. HML seeks to manage these risks by maintaining adequate cash and physical asset cover for derivative positions and also by regularly monitoring derivative positions and only entering into transactions with reputable counterparties via recognised exchanges where possible. If HML enters into any derivative transaction with any other counterparty, it will seek to ensure the counterparty is creditworthy and viable.

(h) **Possibility of future HML Share price depreciation**

The Voting Directors cannot predict whether the HML Share price would in fact decrease or increase in the absence of the JBL Offer, as there may be other reasons for share price movements. There is a risk that HML Shares may trade at a price below the implied value of the Offer Consideration if the JBL Offer does not proceed and no superior alternative proposal emerges.

This is subject to reinstatement of HML to the ASX.

(i) **Minority ownership consequences and liquidity risk**

The JBL Offer is unconditional. As a result, JBL may be in a position where it holds less than 50.1% of HML Shares.

Depending upon the number of HML Shareholders who accept the JBL Offer, this may have a number of implications for remaining HML Shareholders who do not accept the JBL Offer, including:

(i) *JBL may be in a position, either alone or in conjunction with one or more of the other HML Shareholders, to control or significantly influence the composition of the HML Board, management and the strategic direction of the businesses of HML and its subsidiaries although no forecast is made as to whether that will occur;*

(ii) *the liquidity of HML Shares may be lower in the event trading in HML Shares on the ASX recommences;*

(iii) *if JBL becomes entitled at some later time to exercise any compulsory acquisition rights under the Corporations Act, it may (and has stated that it intends to) exercise those rights;*

(iv) *in the event that a change of control results from the JBL Offer, this may have material adverse consequences for a significant number of leases to which HML is party, which may adversely affect HML's financial position and financial performance; and*

(v) *if the number of HML Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then the ASX may de-list HML. If this occurs, any remaining HML Shareholders will not be able to sell their HML Shares on-market.*

(j) **Ability to attract and retain key personnel**

There is a risk that changes in these factors may occur which would inhibit HML's ability to hire and retain employees. As a result, HML financial and operating performance may be adversely impacted if HML cannot find suitably qualified employees or adequately incentivise team members.

10.4 Risks associated with accepting the JBL Offer and becoming a JBL Shareholder

If you accept the JBL Offer, you will receive JBL Shares. There are certain risks associated with accepting the JBL Offer, including:

(a) **You will not be able to sell your HML Shares on market.**

If you accept the JBL Offer, you will no longer be able to sell your HML Shares on-market, unless you are entitled to withdraw your acceptance of the JBL Offer in the limited circumstances described in Section 7.6 of this Target's Statement. There is a possibility that the HML Share price on the ASX may exceed the price offered pursuant to the JBL Offer in the future (though the Voting Directors can give no assurances and make no forecast of whether this will occur). In addition, there is a possibility that HML will not be re-admitted to trade on the ASX during the Offer Period which will mean you are unable to trade your HML Shares on-market. This will mean you will only be able to sell your HML Shares off-market.

(b) **Possibility of a Superior Proposal emerging**

A third party with a Superior Proposal may emerge (although the Voting Directors can give no assurances that this will occur). Once you have accepted the JBL Offer, you will not be able to accept Superior Proposal for your HML Shares (should such a proposal eventuate) as you will have entered a binding contract for the sale of your HML Shares. However, as at the date of this Target's Statement, the Voting Directors are not aware of a proposal by anyone to make a Superior Proposal. The Voting Directors consider that it is unlikely that a Superior Proposal will be forthcoming before the end of the Offer Period.

(c) **Issue of JBL Shares as consideration**

HML Shareholders are being offered consideration under the JBL Offer that consists of a specified number of JBL Shares (rather than a number of JBL Shares with a specified market value). The market value of JBL Shares at the time at which they are received by HML Shareholders may vary from their market value on the date that HML Shareholders accept the JBL Offer. Accordingly, market fluctuations could affect the value of the consideration paid (in the form of JBL Shares) under the JBL Offer and the value of an accepting shareholder's investment in JBL.

JBL is not obliged to make any adjustment in the consideration payable under the JBL Offer if the value of JBL Shares changes during the Offer Period. Some HML Shareholders may not intend to continue to hold JBL Shares and may wish to sell them on the NSX.

There is a risk that if a significant number of HML Shareholders seek to sell their JBL Shares that the share price of JBL may be adversely impacted.

Further, JBL Shares issued to certain Foreign Shareholders will be sold on the NSX. The sale of these JBL Shares could also have a material adverse effect on JBL and the price of JBL Shares.

(d) **NSX**

JBL Shares are listed on the NSX. The NSX is a small and medium enterprise-focused listed stock exchange. As with the ASX, the NSX is the holder of an Australian Market Licence issued by the Minister in accordance with Chapter 7 of the Corporations Act.

The NSX operates a regulated, transparent, orderly and highly efficient market. It operates the NASDAQ OMX trading system. Settlement of securities occur in CHESS, facilitated by more than 20 brokers in Australia and one online broker.

A full list of NSX brokers is available on the NSX's website: https://www.nsx.com.au/investing/broker-directory/

Your existing broker or online broker may not trade on the NSX. You may need to engage the services of another broker if you wish to sell the JBL Shares you receive if you accept the JBL Offer.

(e) **Liquidity**

JBL Shares are listed on the NSX.

The level of liquidity on the NSX market has the potential to be lower than on larger, established markets such as the ASX. As a result, the number of investors willing to buy and sell securities at any particular time is potentially less.

Your existing broker or online broker may not trade on the NSX. You may need to engage the services of another broker if you wish to sell the JBL Shares you receive if you accept the JBL Offer.

The Voting Directors encourage you to read the JBL's analyses in section 9 of its Bidder's Statement and section 3.8 of its Supplementary Bidder's Statement.

(f) **Synergy risks**

Whilst the directors of JBL expect certain synergies to be realised in the Merged Group, achievement of these synergies is not certain. The synergies may not be realised to their full extent or may be realised over a longer period of time than the Directors of JBL expect, or, less likely, not at all. This could have a material adverse impact on the financial performance of JBL.

(g) **Taxation consequences**

The taxation consequences of disposing of your HML Shares pursuant to the JBL Offer depend on a number of factors and your particular circumstances. A general outline of certain Australian taxation consequences of such a disposal is set out in Section 9 of the Target's Statement. You should seek your own specific professional tax advice as to the taxation implications applicable to your circumstances.

(h) **Management Services Agreement**

JBL is the current manager of HML pursuant to the Management Services Agreement. The success and profitability of HML significantly depends on the ability of the Manager to make investments that increase in value over time. The continued engagement of JBL as manager of HML's portfolio of investments is a risk. If the Management Services Agreement is terminated, HML will need to identify and engage a suitable replacement either externally or employ appropriately qualified investment professionals internally.

Under the Management Services Agreement with HML, JBL as manager is entitled to be paid both a Management Fee and a Performance Fee.

In accordance with the Management Services Agreement, the investment manager (being JBL) will receive a management fee of 2% per annum (plus GST) calculated and paid monthly in arrears based on the net tangible assets of the HML and a performance fee paid quarterly in arrears.

The performance fee is calculated as 23% of the 'investment return at the end of the last day of the relevant quarter.

The Performance Fee is based on the market value of the Portfolio at the end of each financial quarter. There is a risk that the Performance Fee may create an incentive for JBL to make investments on behalf of HML that are riskier and more speculative than would be the case in the absence of such a fee. The payment of the Performance Fee to JBL may therefore add to the risk and volatility of the Portfolio's underlying investments.

The 'investment return' is defined as the percentage by which the mark-to-market value (excluding estimates taxes) at the end of the last day of the relevant quarter exceeds the mark-to-market value (excluding estimated taxes) at the end of the last day of the quarter immediately prior to the relevant quarter, excluding any additions to or reduction in equity in HML during the relevant quarter including dividend reinvestments, new issues, the exercise of share options, share buy back and payment of dividends.

(i) **Conflict of interest**

JBL also acts as investment manager for other entities including Bartholomew Roberts Pty Ltd and the JB High Alpha Fund. It is possible that JBL as manager may, in the course of its business, have potential conflicts of interest which may not be managed effectively and may be detrimental to HML and HML Shareholders and/or the Merged Group.

(j) **Derivatives risk**

Risks associated with using derivatives include the value of the derivative failing to move in line with the underlying asset, potential illiquidity of the derivative, HML not being able to meet payment obligations as they arise, regulatory risk and counterparty risk (this is where the counterpart to the derivative contract cannot meet its obligations under the contract). JBL employs derivatives for investment, hedging, leverage and investment implementation and exit purposes.

General risks such as liquidity and counterparty or market risks (as further detailed in Section 8 of the Target's Statement) can be magnified by the use of derivatives because of the leverage effect they exert on JBL. JBL manages this risk by maintaining adequate cash and physical asset cover for derivative *positions and also by regularly monitoring derivative positions and only entering into transactions with reputable counterparties via recognised exchanges.*

(k) **Performance of JBL**

JBL has raised a number of risks related to the general performance of JBL which HML Shareholders should be mindful of when making a decision. For completeness, a summary of these risks as identified by JBL are set out below:

(i) *"JBL may require additional funding to undertake its capital expenditure program for the Merged Group;*

(ii) *JBL may be unable to achieve its objectives as investment manager of the entities for which it acts in this capacity;*

(iii) *JBL is dependent upon the talent and experience of its key personnel and may be negatively impacted if such people leave;*

(iv) *the level of liquidity of JBL Shares on the NSX market may be lower than on other, larger and more established markets;*

(v) *a fall in equity markets, bond markets or a lack of change in the Australian dollar against other currencies may discourage the movement of money into or out of equity markets and adversely impact the value of JBL's assets;*

(vi) *risks associated with using derivatives for investment, hedging, leverage and investment implementation and exit purposes;*

(vii) *risks associated with taking short futures positions;*

(viii) *dependence by JBL upon its investment management agreements;*

(ix) *JBL's ability to achieve its performance objectives, produce returns that are positive or compare favourably against its peers;*

(x) *JBL may invest in companies which may mean that achieving a return on investment is more difficult than in larger capitalised or listed companies;*

(xi) *concentration risk may mean that poor performance in a specific market may significantly affect JBL;*

(xii) *overseas investments of JBL are subject to exchange rate volatility which may reduce the value of JBL's assets;*

(xiii) *entities upon which JBL's investments depend may default on their obligations to JBL;*

(xiv) *governments or regulators may pass laws, create policy or implement regulation that affects JBL or its assets;*

(xv) *JBL's investments may be difficult or impossible to sell;*

(xvi) *changes in the prices of future positions held by JBL may result in loss of principal or large movements in JBL's share price within short or long periods of time;*

(xvii) *leverage risk may mean that gains and losses may be significantly greater than those in a company that is not leveraged;*

(xviii) *JBL's investment approach is based upon the experience of the investment manager and research into data and mathematical models that attempt to forecast returns, risk, correlation and transaction costs, which may mean that the investment system implemented by JBL may not generate profitable trading signals;*

(xix) *JBL may be exposed to certain risks in respect of collateral delivered to counterparties in respect of derivatives arrangements; and*

(xx) *JBL may not be undertake its investment activities if it ceases to be an authorised representative of JB Markets Pty Ltd (AFSL No. 323182)."*

10.5 General risks

(a) Fluctuation in price of HML Shares

There are general risks associated with investments in equity capital. The trading price of HML Shares may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for HML Shares being more or less than the Offer Consideration.

Generally applicable factors which may affect the market price of shares include general movements in Australian and international stock markets, investor sentiment, Australian and international economic conditions and outlook, changes in interest rates and the rate of inflation, changes to government regulation and policies, announcement of new technologies and geo-political instability, including international hostilities and acts of terrorism.

The market for JBL Shares may also be affected by a wide variety of events and factors including variations in JBL's operating results, recommendations by securities analysts, and the operating and trading price performance of other listed investment management industry entities that investors consider to be comparable to JBL. Some of these factors could affect JBL's share price regardless of JBL's underlying operating performance.

(b) Government and regulatory factors

Government or regulatory policies may change, which could have an impact on the economic environment and general market conditions. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of HML.

(c) Interest rate fluctuations

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect HML's cost of servicing these borrowings which may adversely affect its financial position. In addition, interest rate fluctuations may impact the amount of credit which is made available to potential borrowers.

As at the date of this Third Supplementary Target's Statement, HML does not have any borrowings.

11. Additional information

11.1 Tax consequences

In addition to the statement in section 9 of the Target's Statement, previous acceptances of the JBL Offer indicate that the criterion for the availability of CGT rollover relief would not be satisfied, being JBL increasing its holding in HML to at least 80%. As such, HML Shareholders will not have access to CGT rollover relief in the event their acceptance causes a capital gain.

Further, as there are no conditions attached to the JBL Offer, the CGT event will occur when you accept the offer as opposed to when you receive the Offer Consideration.

11.2 Continuous Disclosure

The following announcements have been lodged on HML's ASX platform since the dispatch of the Target's Statement on 6 December 2018:

Date	*Description of announcement*
29.03.2018	*Changes in substantial holding from JBL*
25.03.2019	*JBL Update on Orders*
19.03.2019	*Replacement Bidder's Statement*
18.03.2019	*Ceasing to be a substantial holder*
18.03.2019	*HML Variation of Orders*
14.03.2019	*Net Tangible Asset Backing*
07.03.2019	*Second Supplementary Targets Statement*
28.02.2019	*Half Yearly Report and Accounts*
20.02.209	*JBL Cancellation of Acceptances – HML*
20.02.2019	*Changes in substantial holding from JBL*
19.02.2019	*First Supplementary Target Statement*
18.02.2019	*JBL Second Supplementary Bidder's Statement*
18.02.2019	*JBL Extension of offer period of HML Offer*
18.02.2019	*Notice of Variation of Offer*
14.02.2019	*Net Tangible Asset Backing*
14.02.2019	*BHD HML*
08.02.2019	*TOV: BHD 02 HML 02 – Orders*

Date	*Description of announcement*
31.01.2019	*TOV: Panel Receives Applications*
25.01.2019	*TOV BHD and HML Declaration of Unacceptable Circumstances*
24.01.2019	*Notice of Variation of Offer*
23.01.2019	*Appointment of Auditor*
22.01.2019	*Notice of Variation of Offer*
16.01.2019	*Change in substantial holding*
15.01.2019	*Net Tangible Asset Backing*
11.01.2019	*JBL Change in substantial holding notice*
10.01.2019	*Change in substantial holdings from JBL*
07.01.2019	*Status of defeating conditions and extension of offer*
02.01.2019	*Benjamin Hornigold Ltd 02 and Henry Morgan 02*
28.12.2018	*TOV: Benjamin Hornigold Ltd 02 and Henry Morgan 02*
28.12.2018	*Change in substantial holdings from JBL*
27.12.2018	*Change in substantial holdings from JBL*
24.12.2018	*JBL Offer Update*
24.12.2018	*JBL off-market takeover bid for HML*
19.12.2018	*Change in substantial holdings from JBL*
18.12.2018	*Change in substantial holdings from JBL*
17.12.2018	*Change in substantial holdings from JBL*
14.12.2018	*Net Tangible Asset Backing*
14.12.2018	*Change in substantial holdings from JBL*
13.12.2018	*Change in substantial holdings from JBL*
12.12.2018	*Change in substantial holdings from JBL*
11.12.2018	*Change in substantial holdings from JBL*
10.12.2018	*Change in substantial holdings from JBL*
07.12.2018	*Change in substantial holdings from JBL*

12. Approval of Third Supplementary Target's Statement

This Third Supplementary Target's Statement is dated 29 March 2019 (being the date on which this Third Supplementary Target's Statement was lodged with ASIC) and has been approved by a resolution of the Directors of HML.

Mr Peter Ziegler
Chairman
Independent Board Committee

Annexure A Supplementary Expert's Report

HENRY MORGAN LIMITED

Proposed Acquisition By John Bridgeman Limited

Supplementary Independent Expert's Report and Financial Services Guide

29 March 2019

29 March 2019

The Independent Directors
Henry Morgan Limited
GPO Box 3112
Brisbane QLD 4001

Dear Directors,

Supplementary Independent Expert's Report for Henry Morgan Limited

1. Introduction

Henry Morgan Limited ("**HML**") is a listed investment company ("**LIC**") with interests in derivative instruments and unlisted securities. John Bridgeman Limited ("**JBL**"), a company listed on the National Stock Exchange of Australia, is the appointed investment manager of HML.

On 10 September 2018, JBL announced its intention to make an off-market takeover offer for all of the issued shares in HML for consideration of 0.95 JBL shares for each HML share ("the **HML Offer**"). At the same time, JBL made an off-market takeover offer for Benjamin Hornigold Limited ("the **BHD Offer**"), another LIC managed by JBL. On 5 March 2019 JBL announced that the JBL Board had decided not to proceed with the BHD Offer.

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") was engaged by the independent directors of HML to prepare an independent expert's report ("**IER**") to assess whether the HML Offer was fair and reasonable to HML shareholders not associated with JBL ("**HML Non-Associated Shareholders**") in accordance with Section 640 of the Corporations Act 2001 ("**Section 640**"). On 6 December 2018 HML issued its target's statement in respect of the HML Offer which included an IER from Leadenhall which concluded that the HML Offer was not fair but reasonable to HML Non-Associated Shareholders ("**HML IER**").

On 28 December 2018 it was announced that several shareholders of HML (representing 0.17% of the ordinary shares on issue) made an application to the Takeovers Panel ("**the Panel**") seeking a declaration of unacceptable circumstances. On 25 January 2019 the Panel made declarations of unacceptable circumstances in response to the application received and issued final orders on 8 February 2019 (the "**HML Orders**") which included the following key requirements:

- JBL and HML to provide further information to HML Non-Associated Shareholders in a Replacement Bidder's Statement and Supplementary Target's Statement. This includes updated financial information for all entities as well as a description of the various relationships and transactions between JBL, HML, Bartholomew Roberts Pty Ltd ("**BRL**"), JB Financial Group Pty Ltd ("**JBFG**"), JB Trading House Pty Ltd ("**JBTH**") and their associates.
- Cancellation of all acceptances received in respect of the HML Offer.

In addition to the above, there was a further order by the Panel in respect of the BHD Offer which required the repayment of the $4.5 million loan from BHD to JBL ("**JBL Loan**"). The JBL Loan was repaid in March 2019.

On 19 March 2019 JBL issued a Replacement Bidder's Statement in response to the Orders ("**Replacement Bidder's Statement**"). As at the date of the Replacement Bidder's Statement, JBL had a relevant interest in HML of 11.07%[1].

Further details of the Orders are set out in Section 1 of our detailed report.

[1] *9.78% direct interest and 1.29% controlled by Mr Stuart McAuliffe*

2. Purpose of the report

The HML Orders require a supplementary IER to be provided to HML Non-Associated Shareholders stating whether at the date of the supplementary IER the HML Offer is fair and reasonable following consideration of the Replacement Bidder's Statement, repayment of the JBL Loan and cancellation of the acceptances received in respect of the HML Offer. The independent directors of HML have requested Leadenhall to prepare this report to accompany the Supplementary Target's Statement to be sent to shareholders of HML in order to assist the HML Non-Associated Shareholders in their consideration of the HML Offer.

This report should be read in conjunction with our HML IER which was issued on 6 December 2018.

3. Basis of evaluation

In order to assess whether the HML Offer is fair and reasonable we have considered the impact of the HML Orders and:

- Assessed whether the HML Offer is fair by comparing the value of an HML share (on a control basis) to the fair market value of the proposed consideration, being the value of 0.95 JBL shares after the HML Offer ("**Enlarged JBL**") on a minority basis.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to HML Non-Associated Shareholders outweigh the disadvantages.

Further details of the basis of evaluation are provided in Section 2 of the HML IER.

4. Fairness assessment

We have considered whether the HML Offer is fair having regard to the following factors in addition to the considerations set out in our HML IER:

- Business updates for HML, JBFG, BRL and JBL which included discussions with the management teams and analysis of updated financial information as at 31 December 2018 and/or 31 January 2019 as available.
- JBL has announced that it will not proceed with the BHD Offer. As a consequence, our assessed value of Enlarged JBL does not contemplate any increase in JBL's existing 0.19% interest in BHD. This reduces the value of Enlarged JBL.
- Repayment of the JBL Loan.
- Additional information in the Replacement Bidder's Statement. We note that no significant information was provided that was not considered in preparing our HML IER.
- There has been no significant trading in JBL shares since our HML IER with the most recent sale of 1,525 shares on 24 December 2018 occurring at a price of $0.60.

Based on this analysis there have been no significant changes in the underlying businesses or their outlook since our HML IER or as a consequence of the HML Orders which had any meaningful impact on our assessed value of HML or Enlarged JBL (other than repayment of the JBL Loan).

The HML Offer is not fair

Our fairness assessment of the HML Offer after having considered the HML Orders is summarised below.

Table 1: Fairness summary

Fairness summary			
$/share		**Low**	**High**
Assessed value per HML share (control basis)	(Appendix 1)	0.81	0.91
Consideration			
Assessed value of Enlarged JBL per share (minority basis)	(Appendix 2)	0.47	0.54
JBL shares issued as consideration		0.95	0.95
Fair market value of consideration		**0.45**	**0.51**
Fair (unfair) amount per share		**(0.37)**	**(0.40)**

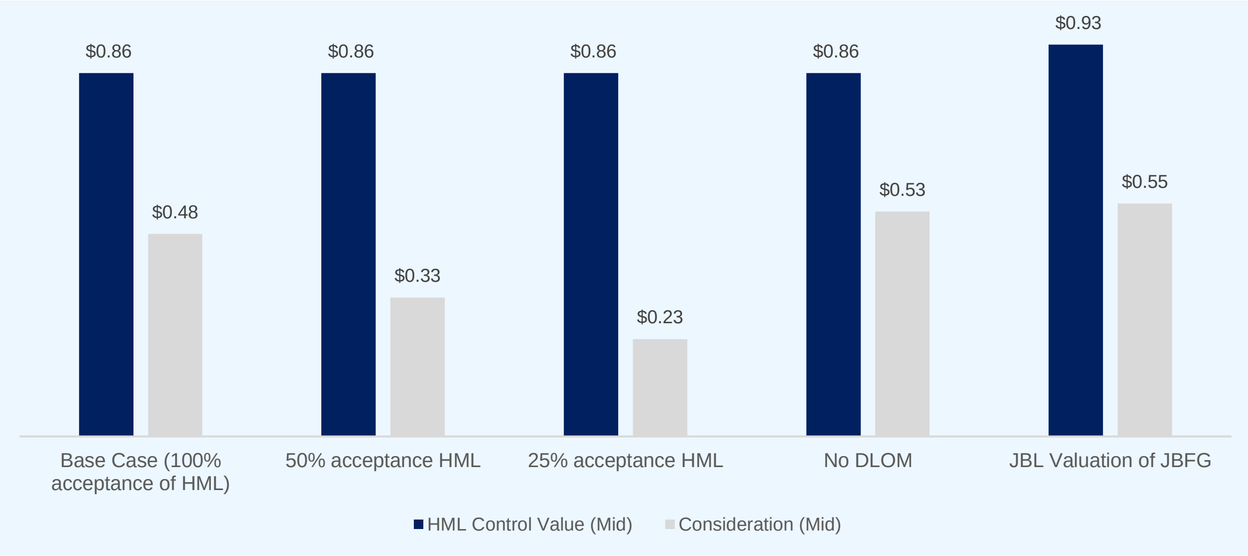
Source: Leadenhall analysis
Note: Table subject to rounding

As set out above, we have determined that the value of an HML share (on a control basis) is above the fair market value of the 0.95 shares in Enlarged JBL (on a minority basis) to be received as consideration. Accordingly the HML Offer is not fair.

Sensitivities

There are a number of subjective assumptions required to be made in respect of the evaluation of the HML Offer, the key aspects which we have summarised in the chart below:

Figure 1: Sensitivity / scenario summary



Source: Leadenhall analysis

In respect of the above:

- For the purpose of our analysis we have assumed 100% acceptance of the HML Offer as this is the most favourable scenario for HML shareholders who accept the HML Offer. However, to the extent JBL does not obtain control of HML, it is likely that ongoing listing costs, director fees and other expenses would continue to be incurred. Due to the small scale of HML and uncertain investment returns, these costs would likely erode shareholder value for HML thereby reducing the implied consideration to HML shareholders who accept the HML Offer as set out above.

- To the extent that liquidity in JBL shares improves substantially after the HML Offer, it is possible that the DLOM applied in our valuation could be reduced over time. As set out above, even if no DLOM is included, our conclusion on the HML Offer does not change.
- Our assessed value of JBFG is less than the most recent valuation adopted by HML and included in the auditor reviewed financial statements as at 31 December 2018. As set out above, our conclusion is not impacted even if we were to utilise the price per share for JBFG implied by the current carrying value of HML's interest in JBFG.

5. Reasonableness assessment

Introduction

As set out in our HML IER we concluded that the HML Offer was not fair but reasonable to Non- Associated Shareholders. In forming this opinion we considered that, on balance, the alternatives available to HML are subject to comparatively higher execution risks, longer timelines and likely lower values relative to the HML Offer.

The HML Orders cancel the previously received acceptances such that as at the date of the Replacement Bidder's Statement JBL had a relevant interest in HML of 11.07%. The HML Orders therefore provide the directors of HML and HML Non-Associated Shareholders with greater ability to execute the alternatives available to the HML Offer.

In determining the impact of the HML Orders on the reasonableness of the HML Offer to HML Non-Associated Shareholders, we have considered the effect of the HML Orders on the advantages and disadvantages of the HML Offer set out in the HML IER.

Advantages

Limited compelling alternatives are available to HML

As set out in the HML IER there are a number of issues faced by HML which restrict the possible alternatives to the HML Offer. The HML Orders have little impact on our assessment of these issues other than the impact from requiring the cancellation of acceptances of the HML Offer. This increases the ability of HML's board to execute alternatives to the HML Offer.

We consider that the main alternatives available to HML Non-Associated Shareholders are as follows:

- **Retaining the status quo:** This poses significant risks since the timeline for removal of the trading suspension is uncertain and there is a risk that HML could be delisted if the trading suspension is not removed by July 2019 as a result of new draft ASX rules. If the current trading suspension is lifted, it is likely that the share price and ongoing liquidity would be adversely impacted by the protracted trading suspension and likely adverse market sentiment for at least the near-term. HML would remain dependent on JBL for realising ongoing value from distributions or divestments in respect of JBFG and BRL. In the absence of significant cash profits from trading (which have not occurred to date) it is also likely that shareholder value would continue to be eroded through management fees, listing fees and administration costs.
- **Replacing the manager and amending the investment strategy:** Whilst HML could potentially change its investment manager and the investment strategy, under the terms of the investment management agreement ("**IMA**") termination can only be achieved by HML shareholders through an ordinary resolution after March 2020. In any event, notwithstanding the appointment of an alternative manager, HML would still face many of the above risks including significant exposure to unlisted, illiquid investments in JBFG and BRL that would need to be managed in conjunction with JBL.
- **Seek alternate takeover offer:** An alternate takeover would appear unlikely as we understand that no alternative proposals have been put forward to HML despite the prolonged transaction process and HML providing updated financial and other information to the market. The existing IMA with JBL for HML would likely also act as an impediment as any potential acquirer would likely either internalise the management of the LIC or appoint an alternate manager.

- **Wind up HML and distribute net proceeds:** Non-Associated Shareholders could also consider an orderly realisation of the assets of HML with the net proceeds distributed to shareholders over time. Whilst this would offer some form of liquidity for HML Non-Associated Shareholders in the future, this would be subject to considerable execution risks and uncertainty as to the timing and quantum of any distributions. Furthermore, it is possible that the value realised would be lower than our assessed value of HML's assets due to the likely limited number of potential acquirers of these assets other than JBL and that HML's interests in JBFG and BRL would likely attract significant discounts for lack of control and marketability/liquidity unless realised in conjunction with JBL. This approach would likely require an extended timeframe and incur a number of costs including termination payments, ongoing management fees (and potentially performance fees) as well as operating costs and wind-up costs.

We consider that all of the above alternatives are subject to considerable risks and uncertainties in respect of the value to be received by Non-Associated Shareholders and the timeframe over which this could be realised and none conclusively presents a superior alternative to the HML Offer.

Further details of our consideration of the above alternatives are set out in Section 3.4 of our detailed report.

JBL's relevant interest in HML

At the time of writing the HML IER, JBL had a 58.4% relevant interest in HML. The effect of the HML Orders is to cancel all previously received acceptances such that as at the date of the Replacement Bidder's Statement, JBL's relevant interest in HML was 11.07%. Whilst the HML Orders may reduce the risk of JBL obtaining control of HML, given the level of acceptance of the HML Offer prior to the dispatch of the original Target's Statement and given that there would appear to be a number of parties on the HML shareholder register that are known to JBL (including Mr John McAuliffe, a director of JBL, who owns 5.56% of HML shares), this risk is still a relevant consideration. As at 29 March 2019, JBL had a 23.93% relevant interest in HML.

As set out in our HML IER, if JBL were to gain control of HML, HML Non-Associated Shareholder that do not accept are exposed to the risk that JBL may substantially change HML without their approval being required.

No conditions

JBL have stated that the HML Offer is free from any conditions. This provides greater certainty to HML Non-Associated Shareholders that accept the HML Offer that it will proceed in the current form.

Other advantages

The HML IER also identifies advantages related to potential increased liquidity in shares of Enlarged JBL as well as potential synergy benefits that may benefit Enlarged JBL. We do not consider that the HML Orders have any effect on these advantages.

Further details of our consideration of the above factors are set out in Section 3.4 of our detailed report.

Disadvantages

Going concern risks

Since issuance of the HML IER, JBL released its financial report for the half year ended 31 December 2018 which highlighted uncertainty as to the ability of JBL (inclusive of the consolidated operations of JBFG) to operate as a going concern for the second consecutive reporting period. JBL's directors have expressed the view that JBL has adequate financial resources to continue as a going concern and that JBL will be able to realise its assets and settle its liabilities in the normal course of business and at the amount stated in the 2019 half year report.

JBFG represents the majority of the direct and indirect investment assets of HML and JBL. As a result, irrespective of whether HML Non-Associated Shareholders accept the Offer, they are exposed to any solvency or going concern risks of JBFG. To the extent the HML Offer is successful, this could mitigate this risk due to the potential benefits in terms of scale, alignment of interests and access to capital of Enlarged JBL relative to the status quo.

Risks of obtaining a relevant interest of less than 50% in HML

At the time of the HML IER, JBL had a 58.4% relevant interest in HML which was reduced to 11.07% as at the date of the Replacement Bidder's Statement due to the HML Orders. As at 29 March 2019, JBL had a 23.93% relevant interest in HML.

If JBL acquires in excess of 50% of HML, it is JBL's intention to replace all HML directors, evaluate the performance and strategy of HML and, should JBL obtain in excess of 75% of HML, delist HML from the ASX.

The most significant detriment to the value of Enlarged JBL if JBL was to acquire less than 50% of HML is the continuing costs associated with operating as a listed entity that would be substantially reduced if HML was delisted. These include listing and compliance costs, external directors fees and significant audit and accounting fees. Due to the small scale of HML and uncertain investment returns, these costs would likely erode shareholder value in the absence of any trading gains or realised returns from investments.

Other disadvantages

We do not consider that the HML Orders have any effect on the other disadvantages set out in our HML IER.

Further details of our consideration of the disadvantafes are set out in Section 3.4 of our detailed report.

Conclusion

In determining whether the HML Offer is reasonable we have had primary regard to the HML Orders and the factors considered in the HML IER. In particular, whilst the HML Offer poses a number of risks for HML Non-Associated Shareholders in respect of:

- A significant change in the risk profile of the investment whereby HML shareholders will increase their exposure to unlisted investments and the JBL management and investment teams. However, shareholders who accept the HML Offer will have their interests aligned with JBL and will not be exposed to any potential value leakage from management and performance fees.
- The uncertainty as to when or if shares of Enlarged JBL will experience any meaningful liquidity. Even if share trading volumes increase there is likely to be persistent downward pressure on Enlarged JBL share price in at least the near-term due to selling pressures from shareholders of HML who have not had any access to liquidity due to trading suspensions.
- Uncertainty in respect of future distributions available to Enlarged JBL Shareholders.

Nothwitstanding the risks associated with the HML Offer, we consider that the alternatives available to HML are exposed to relatively higher execution risks and uncertain timelines and likely lower value being realised by HML Non-Associated Shareholders. Therefore, on balance, we consider the HML Offer is reasonable to HML Non-Associated Shareholders.

6. Opinion on HML Offer

In our opinion, the HML Offer is not fair but reasonable to HML Non-Associated Shareholders, in the absence of a superior proposal.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual HML shareholders. Leadenhall has not been engaged to provide a recommendation to shareholders in relation to the HML Offer, the responsibility for which lies with the directors of HML.

The decision whether to accept the HML Offer is a matter for individual shareholders, Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the analysis from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the HML Offer is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the HML Offer on their specific financial circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully

Dave Pearson
Director

Richard Norris
Director

Notes:

1. *All amounts stated in this report are in Australian dollars unless otherwise stated.*
2. *Tables in this report may not add due to rounding.*

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

General Financial Product Advice

The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that We May Receive

We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of $70,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the HML Offer.

Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

Referrals

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

Complaints Resolution

As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Australian Financial Complaints Authority ("**AFCA**"). AFCA will then be able to advise you as to whether they can assist in this matter. AFCA can be contacted at the following addresses:

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001

Website: www.afca.org.au
Email: info@afca.org.au
Telephone: 1800 931 678 (free call)

Leadenhall's AFCA membership number is 12224

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

29 March 2019

Contents

1 THE PANEL ORDERS

1.1 Introduction

On 10 September 2018, JBL announced its intention to make off-market takeover offers ("the **Proposed Transactions**") for all of the issued shares in HML and BHD for consideration of 0.95 JBL shares for each HML share, 0.65 JBL shares for each BHD share and 0.5 JBL options for each BHD option. The offer for BHD has subsequently lapsed.

Prior to the announcement of the Proposed Transactions, JBL held a relevant interest of 11.07% in HML.

On 28 December 2018 it was announced that several shareholders of both HML and BHD made an application to the Panel seeking to prevent the Proposed Transactions from proceeding.

1.2 Panel declaration

On 25 January 2019 the Panel made declarations of unacceptable circumstances in response to the applications received. In particular, the Panel considered that the circumstances in relation to each of the Proposed Transactions were unacceptable based on a number of factors, including:

- The bidder's statements (as supplemented) did not adequately disclose information material to the acceptance of the bids, including the various relationships and transactions between JBL, BHD, HML and JBFG and the financial position of JBL and JBFG.
- In relation to BHD, the loan arrangements with JBL diminished the value of important assets of BHD making BHD less attractive to an acquirer and less likely to attract competing proposals.
- BHD and HML agreed in advance and without qualification to early dispatch of the bidder's statements.
- JBL, BHD and HML failed to promptly correct the misrepresentation of the conditions of the voting director's recommendation in the bidder's statements.
- BHD and HML delayed in giving clear advice to shareholders to take no action in relation to the bids before considering the target's statement and independent expert's reports.

1.3 Panel Orders

On 8 February 2019 the Panel issued the HML Orders the effect of which in relation to the HML Offer relevantly state:

- All acceptances received subsequent to the announcement of the HML Offer will be cancelled.
- JBL will have to issue a supplementary bidder's statement that includes the following:
  - Details of the effect of the Panel orders.
  - A statement that shareholders should wait to receive the supplementary target's statement before deciding whether to accept the bid.
  - A description of the various relationships and transactions between JBL, HML, BRL, JBFG, JBTH and their associates.
  - The risk that shareholders will receive materially less value if JBL only obtains voting power of 50% or less in HML.
  - The most recent financial statements of JBL and HML which include the effect of the repayment of the JBL Loan.
  - A statement noting that the most recent audit opinion of JBL and JBFG refers to material uncertainty regarding going concern.
  - Details of the financial effect of the repayment of the JBL Loan.

1.4 Supplementary IER

Also included in the HML Orders are the requirements that:

- Before the supplementary bidder's statement is dispatched, JBL and HML must provide all relevant financial information to the independent expert.
- A supplementary independent expert's report is included in the Supplementary Target's Statement stating whether, at the date of the supplementary independent expert's report, JBL's bid is fair and reasonable following consideration of the Replacement Bidder's Statement, repayment of the JBL Loan and cancellation of the acceptances.

The independent directors of HML have therefore requested Leadenhall to prepare a supplementary independent expert's report to assess whether the HML Offer is fair and reasonable to HML Non-Associated Shareholders after consideration of the HML Orders. This report is to accompany the Supplementary Target's Statement to be sent to shareholders of HML in order to assist the HML Non-Associated Shareholders in their consideration of the HML Offer.

Similar to the HML IER, in order to assess whether the HML Offer is fair and reasonable we have considered the impact of the HML Orders and:

- Assessed whether the HML Offer is fair by comparing the value of an HML share (on a control basis) to the fair market value of the proposed consideration, being the value of 0.95 JBL shares after the HML Offer, on a minority basis.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to HML Non-Associated Shareholders outweigh the disadvantages.

Further details of the basis of evaluation are provided in Section 2 of our HML IER which is dated 6 December 2018.

2 IMPACT OF THE HML ORDERS

2.1 Introduction

As explained above, the HML Orders set out the requirements for the HML Offer to proceed. We consider the main implications of the HML Orders for HML Non-Associated Shareholders to be:

- Requirement for the provision of additional information in the form of the Replacement Bidder's Statement, Supplementary Target's Statement and Supplementary Independent Expert's Report. This includes updated financial information for all entities as well as a description of the various relationships and transactions between JBL, HML, BRL, JBFG, JBTH and their associates.
- At the time that the Target's Statement was issued JBL's relevant interest in HML had increased from 11.07% to 58.4%. The HML Orders cancel all acceptances received such that JBL's relevant interest in HML is 11.07%. The significant decline in JBL's relevant interest in HML therefore allows the directors of HML and HML Non-Associated Shareholders to execute other alternatives available which could include the possibility of an alternate takeover offer or a realisation of the net assets of HML and return of surplus funds to shareholders.
- Although the BHD Offer did not proceed, the order requiring the repayment of the JBL Loan was complied with. As such it is necessary to consider the impact of repayment of the JBL Loan on the financial position and prospects of JBL and JBFG.

2.2 Supplementary Bidder's Statement and Additional Information

2.2.1 Analysis

As part of our analysis we considered the following additional information:

Replacement Bidder's Statement

We have considered the Replacement Bidder's Statement which included the following information not previously included in the Bidder's Statement:

- Details of the effect of the Panel orders.
- A statement that shareholders should wait to receive the supplementary target's statement before deciding whether to accept the bid.
- A description of the various relationships and transactions between JBL, HML, BRL, JBFG, JBTH and their associates.
- An explanation of the risk that shareholders will receive materially less value if JBL only obtains voting power of 50% or less in HML.
- The most recent financial statements of JBL and HML which include the effect of the repayment of the loan from BHD to JBL.
- A statement noting that the most recent audit opinion of JBL and JBFG refers to material uncertainty regarding going concern.
- Details of the financial effect of the repayment of the JBL Loan.

Other than the updated financial information for JBL, the Supplementary Bidder's Statement does not include anything that either was not known to us prior to issuing the HML IER or that would impact our conclusion on the HML Offer.

JBFG Information

For the purpose of the HML IER, we were provided with unaudited management accounts for JBFG for the period 1 July 2018 to 31 October 2018. We have since been provided with unaudited management accounts for the period 1 November 2018 to 31 January 2019 as well as the auditor reviewed financial statements of JBL for the first half of FY19 which consolidate JBFG.

In respect of the additional information provided we note the following:

- **Crown Currency**: One new store was opened in Victoria, the capital for which was funded by free cash flow generated by the business. No further stores are expected to be opened in the next twelve months with management focusing on growing and maturing the current store portfolio. There have been some minor cost overruns that have contributed to below budget EBIT. However management are confident that this predominantly relates to non-recurring expenditure items.
- **JB Trading House**: Revenue from internal futures brokerage fell sharply in the second quarter of FY19 due to reduced trading because of an expected market downturn. This resulted in a half year loss after recording a small profit in the first quarter of FY19. A number of initiatives which were envisaged previously, namely the JB Prime Multi Asset platform, developed in partnership with CQG and fund raising for the JB High Alpha retail and wholesale funds, have commenced with both getting some traction in securing new clients. New growth opportunities are being pursued including the launch of a new fund in the short to medium term as well as the hiring of an institutional futures broker.
- **Genesis**: Has continued to underperform recording a significant loss in the first half of FY19 due to a persistent lack of volatility in the interest rate markets in which Genesis trades. In an attempt to realise efficiencies from economies of scale, Genesis is in advanced discussions in respect of a potential merger.
- **R&S**: Operating results are generally in line with previous expectations as lower revenues have been offset by higher margins and lower operating expenses. Management expects a positive trading trajectory in the final five months of FY19 driven by improved trading in the repossessions business and expansion in the New Zealand market.
- **Related party transactions**: Since the HML IER, the $4.5 million loan facility extended by JBFG to JBL on 25 September 2018 has been superseded by a new facility in a loan agreement dated 6 March 2019 ("**2019 JBFG Facility**"). The 2019 JBFG Facility has a facility limit of $7 million, a term of five years and an interest rate of 13.5% per annum.
- We have analysed the auditor reviewed FY19 half year accounts of JBL, which consolidate JBFG, in which the directors note that the continuation of the consolidated JBL and JBFG as a going concern is dependent on their ability to achieve the following objectives:
  - Forecast positive cash flows from operations
  - Proposed capital expenditure management
  - Capital raisings by way of debt or equity
  - Realisation of surplus assets and sale of existing assets or companies either by a float or trade sale

Further details of the additional information considered as well as our JBFG valuation analysis are set out in Appendix 2.

JBL Information

For the purpose of the HML IER we were provided with unaudited management accounts for the period 1 July 2018 to 30 September 2018. We have since been provided with auditor reviewed financial statements for the period 1 July 2018 to 30 December 2018 (which includes JBFG) as well as JBL stand-alone management prepared balance sheets as at 28 February 2019 (prior to repayment of the JBL Loan) and 9 March 2019 (subsequent to the repayment of the JBL Loan).

In respect of the additional JBL information provided we note the following:

- JBL continues to explore growth opportunities for its managed funds. In 2019 JBL commenced raising funds for the JB High Alpha retail and wholesale funds. New growth opportunities being pursued including launch of a NASDAQ100 fund in the short to medium term. However, the quantum of external FUM being managed remains modest.
- The JBL auditor reviewed financial statements for the half year to 31 December 2018 show a loss after tax of $1.5 million compared to $5.2 million in the prior corresponding period (operating cash loss of $0.2 million and $3.3 million in the prior corresponding period) and net assets of $38.9 million compared to $49.2 million in the prior corresponding period.

- JBL has announced that it will not proceed with the BHD Offer. As a consequence our assessed value of Enlarged JBL does not contemplate any increase in JBL's existing 0.19% interest in BHD. This reduces the value of Enlarged JBL.
- JBL has announced that it will not proceed with the offer to acquire the shares it does not already own in JBFG ("**JBFG Transaction**").
- There has only been one trade in JBL shares since the HML IER with the sale of 1,525 shares at $0.60 per share on 24 December 2018.

Further details of the additional information considered as well as our Enlarged JBL valuation analysis are set out in Appendix 5.

HML Information

For the purpose of the HML IER we were provided with unaudited management accounts for the period 1 July 2018 to 31 October 2018. We have since been provided with auditor reviewed financial statements for the period 1 July 2018 to 31 December 2018 as well as a management prepared balance sheet as at 28 February 2019.

In respect of the additional HML information provided we note the following:

- HML recorded negative revenue of $3.1 million in the half year to 31 December 2018 primarily due to unrealised investment losses related to downward revaluation of its investment in JBFG from $4.65 per share at 30 June 2018 to $4.19 per share at 31 December 2018. The half year loss after tax was $3.5 million compared to a profit of $0.6 million in the prior corresponding period. Net assets were $32.6 million as at 31 December 2018 down from $34.3 million at 30 June 2018.
- HML's reported NTA after tax declined from $1.10 per share as at 31 October 2018 to $1.00 as at 28 February 2019. This was primarily due to the downward revaluation of HML's interest in JBFG as at 31 December 2018.

Further details of the additional information considered as well as our HML valuation analysis are set out in Appendix 4.

2.2.2 Implications

Based on the above, the Additional Information primarily comprises:

- The Supplementary Bidder's Statement which does not include anything that either was not known to us prior to issuing the HML IER or that would impact our conclusion on the HML Offer.
- Business updates for HML, JBFG, BRL and JBL.
- Confirmation that the JBL Loan has been repaid as well as the impact of the repayment on JBL and JBFG.
- JBL has announced that it has decided not to proceed with the BHD Offer or the JBFG Transaction which we have taken into account in preparing our updated valuation analysis of Enlarged JBL.

We have considered the impact of the above in our assessment of fairness of the HML Offer, in particular in our updated valuation analysis for HML and Enlarged JBL and fairness assessment for the HML Offer as set out in Section 3.3.

2.3 JBL Loan Repayment

One of the findings of the Panel was that, as highlighted in our IER, "*in relation to BHD, the Loan Arrangements diminished the value of important assets of BHD making BHD less attractive to an acquirer and less likely to attract competing proposals".*

In respect of the BHD offer, the Panel included an order requiring the repayment to BHD of the JBL Loan (with any interest) within 20 days of 14 February 2019. Despite the BHD Offer lapsing, the $4.5 million JBL Loan was repaid in March 2019.

2.3.1 Analysis

To fund the repayment of the JBL Loan, on 6 March 2019, JBFG and JBL entered into the 2019 JBFG Facility whereby JBFG would advance funds to JBL up to a facility limit of $7 million for a period of five years at an interest rate of 13.5% per annum. To date, JBL have drawn down $7.1 million under the 2019 JBFG Facility.

The impact on the balance sheet of JBL of the repayment of the JBL Loan is as follows:

- Non-current related party borrowings decreased by $4.5 million reflecting the repayment of the JBL Loan.
- Non-current related party borrowings increased by $4.5 million reflecting draw down on the 2019 JBFG Facility.

As noted above, the funds utilised to repay the JBL Loan were loaned to JBL under the 2019 JBFG Facility. We have been provided with a management prepared balance sheet for JBFG as at 31 January 2019. The impact of the JBL Loan repayment on JBFG results in:

- A $4.5 million increase in non-current assets related to related party loans.
- A $4.5 million decrease in the balance of currency held as stock used in the operation of the Crown Currency business. Management have advised that there has been no impact on the operations of Crown Currency as a result of the decrease in currency held as stock after the draw down on the 2019 JBFG Facility. The current balance of currency held as stock is approximately $6.7 million.
- Overall, the repayment of the JBL Loan has no impact on the total or net assets of JBFG.

2.3.2 Implications

We consider the main implication of the repayment of the JBL Loan to be a reduction in liquid assets held by JBFG which could possibly impede the ability of Crown Currency to operate at current capacity if the investment in foreign currency banknotes dropped below the optimum level for trading which varies seasonally. Historically both HML and BHD have invested in foreign currency bank notes traded by Crown Currency. In this respect, to the extent these funding arrangements are not available to the same extent in the future, there may be some increased risk and potential costs associated with sourcing similar external funding arrangements. In particular, we note that BHD, has received notice of intention to call a meeting by members which includes proposed resolutions to remove the current directors. If this is successful a new board would be appointed which may result in a change in the investment portfolio of BHD. We have considered this in our assessed value of JBFG as set out in Appendix 2.

2.4 Cancellation of Acceptances

2.4.1 Analysis

At the time that the Target's Statement was issued, JBL's interest in HML had increased from a relevant interest of 11.07% prior to announcement of the HML Offer to 58.4%. In the HML IER we considered the relevant interest of JBL in HML at that time to be a deterrent to alternative courses of action for HML.

2.4.2 Implications

The HML Orders cancel all acceptances received such that at the time of the despatch of the Replacement Bidder's Statement, JBL's relevant interest in HML returned to the pre-bid level of 11.07%. The significant decline in the pre-existing interest in HML therefore allows the directors of HML and HML Non-Associated Shareholders to potentially consider a broader range of alternatives to the HML Offer. Further analysis of potential alternatives is set out in Section 3.4.2 below.

3 CONCLUSIONS

3.1 Introduction

The HML Orders require a supplementary IER to be provided to HML Non-Associated Shareholders stating whether at the date of the supplementary IER the HML Offer is fair and reasonable following consideration of the Replacement Bidder's Statement, repayment of the JBL Loan and cancellation of the acceptances.

3.2 Basis of Evaluation

In order to assess whether the HML Offer is fair and reasonable we have considered the impact of the HML Orders and:

- Assessed whether the HML Offer is fair by comparing the value of an HML share (on a control basis) to the fair market value of the proposed consideration, being the value of 0.95 Enlarged JBL shares on a minority basis.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to HML Non-Associated Shareholders outweigh the disadvantages.

3.3 Fairness

3.3.1 Introduction

We have considered whether the HML Offer is fair having regard to the following factors in addition to the considerations set out in our HML IER:

- Additional information in the Replacement Bidder's Statement as well as other updated information provided in respect of HML, JBFG, BRL and JBL as at 31 December 2018 and/or 31 January 2019 as available.
- Repayment of the JBL Loan.

Based on this analysis there have been no significant changes in the underlying businesses or their outlook since our HML IER or as a consequence of the HML Orders which had any meaningful impact on our assessed value of HML or Enlarged JBL.

3.3.2 The HML Offer is not fair

Table 2: Fairness summary

Fairness summary			
$/share		**Low**	**High**
Assessed value per HML share (control basis)	(Appendix 1)	0.81	0.91
Consideration			
Assessed value of Enlarged JBL per share (minority basis)	(Appendix 2)	0.47	0.54
JBL shares issued as consideration		0.95	0.95
Fair market value of consideration		**0.45**	**0.51**
Fair (unfair) amount per share		**(0.37)**	**(0.40)**

Source: Leadenhall analysis
Note: Table subject to rounding

As set out above, we have determined that the value of an HML share (on a control basis) is above the fair market value of the 0.95 shares in Enlarged JBL (on a minority basis) to be received as consideration. Accordingly the HML Offer is not fair.

3.4 Impact on Reasonableness

3.4.1 Introduction

As set out in the HML IER we concluded that the HML Offer was not fair but reasonable to Non- Associated Shareholders. In forming this opinion we considered that, on balance, the alternatives available to HML are subject to comparatively higher execution risks, longer timelines and likely lower values relative to the HML Offer.

The HML Orders cancel the previously received acceptances such that as at the date of the Replacement Bidder's Statement JBL had a relevant interest in HML of 11.07%. The HML Orders therefore allow the directors of HML and HML Non-Associated Shareholders to execute any other available alternatives available more comprehensively. We consider the main alternatives to be:

- Retaining the status quo
- Seeking alternative takeover offers
- Replacement of the investment manager
- An orderly wind up of HML

In determining the impact of the HML Orders on the reasonableness of the HML Offer to HML Non-Associated Shareholders, we have considered the effect of the HML Orders on the advantages and disadvantages of the HML Offer contained in the HML IER.

3.4.2 Advantages

Limited compelling alternatives are available to HML

As described in the HML IER there are issues faced by HML which restrict the number of possible alternatives to the HML Offer. The HML Orders have little impact on our assessment of these issues other than requiring the cancellation of acceptances of the HML Offer. This increases the ability of HML's board to pursue alternatives to the HML Offer.

Our consideration of the current alternatives available to HML Non-Associated Shareholders is as follows:

Status quo

HML shares have not traded since June 2017 and remain suspended with no timeline for trading to resume. In the absence of the HML Offer it would seem reasonable that once there is a clear path forward as to the structure of HML, and the perceived related party concerns have been resolved (and any other concerns of the ASX have been settled), the trading suspension would be lifted. However, there is no certainty as to if or when the suspension will be lifted and if lifted, whether HML will be subject to further suspensions in the future. We note that BHD remains suspended as at the date of this report despite the BHD Offer having been withdrawn by JBL.

If and when trading resumes in HML, shareholders would still be subject to a number of risks including:

- The likelihood that the share price of HML will be exposed to significant selling pressures as a number of investors seek liquidity due to the extended trading halt. This selling pressure is unlikely to be matched by demand from new investors due to adverse sentiment as a consequence of the prolonged trading halt and the negative impact of fees and other cost leakage (which will continue in the absence of the HML Offer).
- Remaining a stand-alone ASX listed entity where the existing investment portfolio poses significant risks for HML as it is likely that, in the absence of any significant profits from trading, shareholder value would be further eroded through management and listing fees and other administration costs. HML had a net loss of $3.5 million for the six months ended 31 December 2018. This was largely due to unrealised losses on investments (predominantly caused by a decline in the value of HML's investment in JBFG) in addition to trading losses and one-off costs. There is a risk of further operating losses from one-off costs including legal and consulting fees associated with the HML Offer and the volatility associated with the investment strategy of HML.

- HML's ability to exit its investments in JBFG and BRL is constrained as there are unlikely to be any third-party buyers other than JBL, which along with other related parties, exert significant influence if not practical control over JBFG and BRL. JBL is therefore likely to be the only buyer for HML's interests in JBFG and BRL but it does not have the financial capacity to acquire HML's interests for cash. Furthermore, HML's interests in JBFG and BRL would likely attract significant discounts for lack of control and marketability/liquidity unless realised in conjunction with JBL.
- In its current form, the ability for HML to attract additional capital is likely to be limited due to the above factors, the small scale of the vehicle and the perceived conflicts of interest with JBL.
- The ASX has proposed a revised guidance note anticipated to come into effect as at 1 July 2019. Based on draft revised guidance note, entities that are suspended for two years may be subject to de-listing, a reduction from three years under the current rules.

We consider that the "status quo" alternative is subject to considerable risks and uncertainties in respect of both the value to be received by Non-Associated Shareholders and the timeframe over which value could be realised. If the status quo was maintained, it is likely that for any value realised, investors would be worse off than if they accepted the HML Offer as the risks to realising value comparable to our HML control value are too great, at least in the near term.

Replacement of manager / change in investment strategy

In the absence of the HML Offer, HML could seek to replace JBL as its investment manager. This could act as a catalyst to a lifting of the trading suspension and could lower the fees paid by HML. This would also enable HML to introduce an alternate investment strategy for the available liquid assets if desired.

However, the existing IMA with JBL has an initial term of five years (to March 2020). The IMA can only be terminated during the initial term in certain circumstances, predominantly in respect of breaches of the agreement or insolvency of either of the parties. If the IMA is terminated by HML during the initial term a termination payment of 5% of NTA (reduced by the percentage of the initial term that has expired) would be incurred.

Furthermore, there is no certainty that an alternate manager (with a strong investment track record) would agree to take over the management of HML for the following reasons:

- The new manager would still require the co-operation of JBL to realise value for HML's interest in JBFG and BRL
- There are significant potential risks and costs associated with terminating the IMA
- Lack of scale of the vehicle
- It is common for managers seeking to replace the existing managers for LICs and other managed vehicles to accumulate a stake in the vehicle and then agitate for a change. We are not aware of any alternate managers that have expressed a desire to take over the management of HML.

Having regard to these factors we consider that this alternative is subject to significant risks and uncertainties in respect of the value to be received by Non-Associated Shareholders and the timeframe over which any value could be realised.

Seek alternate takeover offers

Whilst it is possible for HML to seek alternate takeover or other offers, we consider that success would be unlikely for the following reasons:

- We understand that there have been no alternative proposals put forward to the board of HML since the announcement of the HML Offer in September 2018. As the transaction process has been protracted and HML has continued to provide information to the market over this period (in the form of NTA reports and the Target's Statement which included the HML IER) it appears unlikely that an alternative proposal will be forthcoming. We consider that even if an offer were to eventuate, it is likely to be opportunistic and at a discount to NTA, possibly a significant discount, due to the sustained lack of liquidity for HML shareholders and the absence of any market price discovery for HML as a result of the trading suspension since June 2017.

- The existing IMA with JBL for HML would likely act as an impediment as any potential acquirer would either seek to internalise the management of the LIC or appoint an alternate manager. The IMA has an initial term of five years (to March 2020) and can only be terminated during this period on the occurrence of certain events, predominantly relating to breaches of the agreement or insolvency of either of the parties. The IMA provides that it can only be terminated by HML shareholders (by ordinary resolution) after the initial term, or a significant termination payment (5% of NTA) will apply.

Taking the above factors into consideration, an alternative offer for HML appears unlikely in the near-term.

Orderly wind-up

Non-Associated Shareholders could also consider an orderly realisation of the assets of HML with the net proceeds distributed to shareholders. This option would offer the potential for some form of liquidity for HML Non-Associated Shareholders.

However, this approach is subject to considerable risks and uncertainties since:

- Winding-up would require a special resolution which must be passed by at least 75% of the shareholders entitled to vote. Satisfying this approval threshold may be difficult without the support of JBL since:
  - As at 29 March 2019, JBL had a 23.93% relevant interest in HML.
  - The previous voting intentions of HML shareholders e.g.:
    - Prior to the cancellation of the acceptances required by the HML Orders, JBL had a relevant interest in HML of 58.4%.
    - At the Annual General Meeting in November 2018, the resolutions were approved by, on average, 71.7% of the votes cast which represented 44.2% of total shares.
  - It would seem plausible that when/if HML is relisted, JBL would continue to buy shares on market thereby increasing its stake in HML and increasing its ability to prevent special resolutions being passed.
- The existing IMA with JBL may act as an impediment for an alternate course of action as discussed above (i.e. if HML was wound up prior to the end of the initial term, a termination fee would be payable).
- JBL has a 24.62% interest in JBFG (directly and through its interest in BRL). JBL consolidates JBFG in its accounts due to the control exerted over investee companies. HML cannot independently influence any liquidity events for JBFG or any of its subsidiaries other than in conjunction with JBL. HML is unlikely to be able to divest its interest in JBFG other than to, or in conjunction with, JBL. We understand JBL are long-term investors in JBFG and that there are no near-term intentions to divest all or parts of JBFG. HML therefore has a dependency on JBL to be able to realise HML's investment in JBFG.
- Direct and indirect investments in JBFG represent substantially all of our assessed values of HML and Enlarged JBL and is therefore the principal investment of both. If HML Non-Associated Shareholders accept the Offer their interests will be aligned with JBL.
- Even if HML were to divest its assets and return the net proceeds to shareholders, there is likely to be an extended timeframe to do so which may also result in significant additional costs. Furthermore, it is possible that the value realised would be lower than our assessed value of HML's assets due to the limited number of potential acquirers of these assets other than JBL and that HML's interests in JBFG and BRL would likely attract significant discounts for lack of control and marketability/liquidity unless realised in conjunction with JBL. This process would incur a number of costs including termination payments, ongoing management fees (and potentially performance fees) as well as operating and wind-up costs.

We consider that the orderly wind-up alternative is subject to considerable risks and uncertainties in respect of the value to be received by Non-Associated Shareholders and the timeframe over which this value could be realised. As a result of the above, if HML were to undertake an orderly wind-up it is likely that any value realised, at least in the near-term, would be below our assessed control value.

As set out above, while the HML Orders increase the ability of the HML Board to pursue alternative offers, there are significant risks and impediments associated with the possible alternatives that make them difficult to execute successfully or would likely result in a worse outcome for Non-Associated Shareholders than the HML Offer.

JBL's relevant interest in HML

At the time of writing the HML IER, JBL had a 58.4% interest in HML. The effect of the HML Orders is to reduce JBL's relevant interest in HML to 11.07%. Whilst the HML Orders may reduce the risk of JBL obtaining control of HML, given the level of acceptance of the HML Offer prior to the dispatch of the original Target's Statement, this risk is still a relevant consideration. As at 29 March 2019, JBL had a 23.93% relevant interest in HML.

As set out in our HML IER, if JBL were to gain control of HML, HML Non-Associated Shareholders that do not accept are exposed to the risk that JBL may substantially change HML without their approval being required.

No conditions

JBL have stated that the HML Offer is free from any conditions. This provides greater certainty to HML Non-Associated Shareholders that accept the HML Offer that it will proceed in the current form.

Enlarged JBL shares may provide access to greater liquidity

As set out above, there is no certainty as to when or if the HML trading suspension will be lifted or if lifted that HML will not be subject to further suspensions in the future. Furthermore, if trading in HML shares were to resume, the HML share price will be exposed to a number of downside risks including:

- Significant selling pressure due to excess demand for liquidity because of the extended trading halt.
- Ongoing demand for HML shares will likely be constrained by:
  - Adverse sentiment due to extended trading suspension and ongoing issues with regulators.
  - The scale of HML has been reduced due to fee/cost leakage (which will continue in the absence of the HML Offer) and asset write-downs which may reduce the potential investor cohort going forward.
  - The potential for the perceived ongoing conflicts of interest with JBL and the dependence on JBFG for future returns.
  - Dividends appear unlikely in the near term.

As a result of these factors we consider it likely that HML shares would trade significantly below our assessed value range in this situation.

Shareholders who accept the HML Offer will receive shares in Enlarged JBL that are currently trading on the NSX and could provide some access to liquidity for shareholders that desire to realise all or part of the investment in the near term. Enlarged JBL also has the potential to facilitate greater liquidity over time through a broader shareholder base and larger market capitalisation which may appeal to some investors relative to HML in its current form.

However, the ability for HML shareholders to achieve any significant increase in liquidity is subject to substantial risks as discussed below in our assessment of the disadvantages of the offer.

The share price of Enlarged JBL may benefit from potential synergies

Enlarged JBL may benefit from potential scale benefits as well as costs savings and other synergies of the combined group as a result of:

- Combining investment processes and structures as well as support functions.
- A reduction in listing and other governance costs in the event that acceptances for the HML Offer exceed 75% and JBL delisted HML.

However, the extent to which shareholders can realise these benefits is likely to be subject to the following constraints:

- The ability to achieve any cost reductions or other synergies will be dependent on the level of acceptances of the HML Offer.
- Based on recent trading in JBL shares, the likelihood of the market pricing in any benefits seems remote at this stage given the lack of liquidity of JBL shares. Since the announcement of the Proposed Transactions on 10 September 2018, there has been virtually no trading in JBL shares (other than the required buyback of shares by JBL).
- Timing of any distributable cash flow benefits from synergies is uncertain.

3.4.3 Disadvantages

Going concern risks

Since issuance of the HML IER, JBL released its financial report for the half year ended 31 December 2018 on 14 March 2019 which includes JBFG as a consolidated entity of JBL. The report highlighted uncertainty as to the ability of JBL (inclusive of the consolidated operations of JBFG) to operate as a going concern for the second consecutive reporting period.

Over the period 30 June 2018 to 31 December 2018:

- The cash operating loss decreased from $3 million in the corresponding period in FY18 to $0.2 million in the first half of FY19.
- The net cash position decreased from $6.1 million (including the JBL Loan which was included as trade and other payables at 30 June 2018) to net debt of $5.7 million. The cash balances include currency held as stock in the operation on the retail foreign exchange business. Excluding this balance would result in a net debt position of $3.0 million as at 30 June 2018 and $14.2 million as at 31 December 2018.
- As at 30 June 2018 JBL had a current asset deficiency of $3.2 million. However, this included the $4.5 million JBL Loan as a current liability. Excluding the JBL Loan, which has now been replaced with a non-current loan, there was a current asset surplus of $1.3 million as at 30 June 2018 which increased to $2.8 million as at 31 December 2018.

JBL's directors have expressed the view that JBL has adequate financial resources to continue as a going concern and that JBL will be able to realise its assets and settle it liabilities in the normal course of business at the amounts stated in the 2019 half year report. We have therefore prepared our analysis of JBFG and JBL on a going concern basis.

We consider the going concern risks for the consolidated JBL business pertain largely to JBFG since:

- The principal operations of JBL on a stand-alone basis comprise funds management which has limited fixed costs and/or capital requirements. JBL on a stand-alone basis has no external debt as all debt is held within controlled groups or with funds it manages.
- JBFG contains a number of operating businesses which have varying degrees of profitability and capital requirements. Given the early stage of development of JBFG, it is not unexpected that losses have been incurred to date.
- JBFG has external debt which is secured by the assets/businesses of JBFG.

JBFG represents the majority of the direct and indirect investment assets of HML and JBL. As a result, whether or not HML Non-Associated Shareholders accept the HML Offer, they are exposed to any solvency or going concern risks of JBFG. To the extent the HML Offer is successful, this could mitigate this risk due to the potential benefits in terms of scale, alignment of interests and access to capital of Enlarged JBL relative to the status quo.

Risks of obtaining a relevant interest of less than 50% in HML

At the time of the HML IER, JBL had a 58.4% relevant interest in HML which was reduced to 11.07% as at the date of the Replacement Bidder's Statement as per the HML Orders. As at 29 March 2019, JBL had a 23.93% relevant interest in HML.

If JBL acquires in excess of 50% of HML, it is JBL's intention to replace all HML directors, evaluate the performance and strategy of HML and, if JBL obtains in excess of 75% of HML, delist HML from the ASX.

The most significant detriment to the value of Enlarged JBL if JBL were to acquire less than 50% of HML is the continuing expense associated with operating as a listed entity. These expenses would be substantially reduced if HML was delisted. The costs include listing and compliance costs, external directors' fees and significant audit and accounting fees. Due to the small scale of HML and uncertain investment returns, these costs would likely erode shareholder value in the absence of any trading gains or realised returns from investments.

As JBL already has effective control of JBFG, the principal asset of HML, we do not consider that any changes to JBL's relevant interest in HML will have any significant impact on the value of JBFG within Enlarged JBL.

Any increase in liquidity available to HML shareholders is subject to substantial risks

Whilst the HML Offer may provide access to liquidity for some shareholders who accept it, there are considerable risks as to when and if enhanced liquidity will be available to HML shareholders since shares in JBL:

- Are listed on the NSX. This is likely to limit liquidity and access for some investors (which may not have a mandate to invest on the NSX) relative to an ASX listing. Any near-term prospects for Enlarged JBL to seek an ASX listing seem limited due to the significant concerns raised by ASX over JBL's existing managed vehicles.
- Have historically been extremely illiquid and have not seen any significant improvement since announcement of the HML Offer. For example, excluding the buyback by JBL only 17,678 shares have been traded in the 12 months to 20 March 2019 which represents less than 0.1% of shares on issue.
- Are likely to be exposed to uncertainty and/or headwinds in the near-term due to:
  - Selling pressures due to sustained trading suspension of HML and likely desire for immediate liquidity for some shareholders and potentially any institutional shareholders that aren't able to trade in NSX listed securities.
  - Shares in Enlarged JBL may attract an ongoing discount for the complexity of the operations and dependency on future earnings growth to generate distributable income. Future returns for shareholders in Enlarged JBL may be dependent on the management team delivering a sustained track record of positive earnings growth (from trading and/or operating businesses) and/or favourable exit from the underlying investments.

Accepting the HML Offer will result in a significant change in the characteristics of the investment

If shareholders accept the HML Offer, the profile of their investment will change significantly, in particular:

- Increased exposure to the existing investment and management teams of JBL and JBFG. This may not be desirable for some shareholders due to the poor investment track record of JBL and the seemingly adversarial relationship between JBL and some regulators which may persist.
- Shares will be traded on NSX rather than ASX which may result in reduced liquidity as discussed above. Furthermore, an NSX listing may not provide the same level of minority protections as the ASX. Whilst the NSX has some similar levels of protection for related party transactions and continuous disclosure, there are some exceptions. For example, the NSX does not have a requirement for an IER if an NSX company acquires or divests a substantial asset from/to a related party, whereas ASX Listing Rule 10 requires companies to commission an IER to assess these transactions.
- If JBL achieves sufficient acceptances and delists HML, HML investors will no longer receive net tangible assets reports. The frequency of revaluations of investments will likely decrease which will provide less transparency over the ongoing performance of unlisted investments.
- HML shareholders will not control JBL.

Tax implications

As set out in Section 9.3 of the Replacement Bidder's Statement, if shareholders accept the HML Offer it may crystallise a tax event whereby any net capital gain will be included in shareholders' taxable income and taxed at their marginal rate. In particular, a criterion for the availability of CGT rollover relief is that JBL increase its holding of HML shares to at least 80% as a result of the HML Offer. There is a risk that JBL will not receive sufficient acceptances under the HML Offer to meet this criterion and CGT rollover relief may not be available to HML Shareholders.

3.4.4 Conclusion on reasonableness

In determining whether the HML Offer is reasonable we have had primary regard to the HML Orders and the factors considered in the HML IER. In particular, whilst the HML Offer poses a number of risks for HML Non-Associated Shareholders in respect of:

- A significant change in the risk profile of the investment whereby HML shareholders will increase their exposure to unlisted investments and the JBL management and investment teams. However, shareholders who accept the HML Offer will have their interests aligned with JBL and will not be exposed to any potential value leakage from management and performance fees.
- The uncertainty as to when or if shares of Enlarged JBL will experience any meaningful liquidity. Even if share trading volumes increase there is likely to be persistent downward pressure on Enlarged JBL share price in at least the near-term due to selling pressures from shareholders of HML who have not had any access to liquidity due to trading suspensions.
- Uncertainty in respect of future distributions available to Enlarged JBL Shareholders.

Nothwitstanding the risks associated with HML Offer, we consider that the alternatives available to HML are exposed to relatively higher execution risks and uncertain timelines and likely lower value being realised by HML Non-Associated Shareholders. Therefore, on balance, we consikder the HML Offer is reasonable to HML Non-Associated Shareholders.

3.5 Opinion on HML Offer

In our opinion, the HML Offer is not fair but reasonable to HML Non-Associated Shareholders, in the absence of a superior proposal.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual HML shareholders. Leadenhall has not been engaged to provide a recommendation to shareholders in relation to the HML Offer, the responsibility for which lies with the directors of HML.

The decision whether to accept the HML Offer is a matter for individual shareholders, Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the analysis from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the HML Offer is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the HML Offer on their specific financial circumstances.

APPENDIX 1: GLOSSARY

Term	Meaning
2019 JBFG Facility	$7.0 million loan facility extended by JBFG to JBL on 6 March 2019
APES	Accounting Professional & Ethical Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
BHD Offer	The lapsed off-market takeover bid for BHD for 0.65 JBL shares for each BHD share and 0.5 JBL options for each BHD option
BRL	Bartholomew Roberts Pty Limited
Capital Credit	Capital Credit Pty Ltd
CFME	Capitalisation of future maintainable earnings method
Corporations Act	The Corporations Act 2001
CQG	CQG Inc
Crown Currency	The business operated by King's Currency Exchange Pty Ltd and Harnewei Pty Ltd
DLOC	Discount for lack of control
DLOM	Discount for lack of marketability
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Enlarged JBL	JBL after the HML Offer
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FUM	Funds under management
FY	Financial year
Genesis	Genesis Proprietary Trading Pty Ltd
HML	Henry Morgan Limited
HML IER	Our initial IER in respect of the HML Offer dated 6 December 2018
HML Non-Associated Shareholders	HML shareholders not associated with JBL
HML Offer	An off-market takeover bid for 100% of the shares in HML not already owned by JBL for 0.95 JBL shares for each HML share
HML Orders	Final orders of the Takeovers Panel in relation to the HML Offer
IER	Independent Expert's Report
IMA	Investment management agreement
JBFG	JB Financial Group Pty Ltd
JBL	John Bridgeman Limited
JBL Loan	$4.5 million loan from BHD to JBL in respect of repayable performance fees
JBTH	JB Trading House Pty Ltd
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
LIC	Listed investment company
NPAT	Net profit after tax
NSX	National Stock Exchange of Australia
NTA	Net tangible assets
Panel	The Takeovers Panel
PBT	Profit before tax
PE	Price to earnings
R&S	Risk & Security Management Pty Ltd
Related party	Unless otherwise noted, interpreted as it pertains to the definition of 'Closely Related Parties' in the Accounting Standards which is different than the definition prescribed by the Corporations Act.
Replacement Bidder's Statement	The Replacement Bidder's Statement dated 19 March 2019
Proposed Transactions	The HML Offer and BHD Offer
Saxo	Saxo Capital Markets (Australia) Pty Ltd
Section 640	Section 640 of the Corporations Act 2001
SOTP	Sum of the parts

APPENDIX 2: JBFG VALUATION ANALYSIS SUMMARY

We have updated our valuation analysis for JBFG based on the Additional Information, updated outlook for the JBFG businesses and market changes. A summary of our updated SOTP analysis for JBFG is set out in the table below:

Table 3: SOTP value of JBFG

Assessed value of JBFG (minority value)							
$'m	Earnings	Selected earnings		Selected multiple		Value	
Business unit	basis	Low	High	Low	High	Low	High
Crown Currency	EBIT	5.6	6.0	8.5x	9.0x	47.6	54.0
JB Trading House	NPAT	1.5	2.5	11.0x	12.0x	16.5	30.0
R&S	EBIT	2.0	2.5	6.5x	7.5x	13.0	18.8
Total						**77.1**	**102.8**
Related party loans receivable						4.2	4.2
Surplus assets						2.3	2.9
Net cash						3.2	3.2
Total equity value (minority basis)						**86.7**	**113.0**
Number of shares (million)						27.0	27.0
Value per JBFG share (minority value)						**$ 3.21**	**$ 4.19**
Selected value						**$ 3.50**	**$ 4.00**

Source: Leadenhall analysis

We have selected a value of a JBFG share in the range of $3.50 to $4.00 per share after taking into account the following factors:

- Our updated SOTP analysis set out in the table above.
- Recent transactions in JBFG shares which ranged in price from $5.51 to $6.14 between April 2017 and September 2017 (further details are provided in section 11.3 of the HML IER). We note that 53,981 JBFG shares have been acquired by JBL at a price of $5.86 since our HML IER.
- The fair value estimate of $4.19 per JBFG share applied in the half year accounts of HML as at 31 December 2018.

Our updated valuation analysis should be reviewed in conjunction with our HML IER. Further detail on the components of the JBFG SOTP valuation analysis, as well as changes in business operations and valuation conclusions since our HML IER, is provided below.

Crown Currency

Trading update

Below are our key observations based on discussions with management and review of recent financial performance for the second quarter of 2019:

- One new store was opened at Watergardens Town Centre in Taylors Lakes, Victoria. The cost of opening the store was funded by free cash flow generated by the business. At this stage no further stores are expected to be opened in the next twelve months with management focusing on growing and maturing the current store portfolio.
- November was a particularly bad month for trading with EBIT significantly behind budget. This is not totally unexpected as purchasing patterns leading into the Christmas holiday period can vary year on year. This unpredictability was evident in the second quarter of FY19 where December trading was considerably above budget at both the revenue and EBIT level. December outperformance largely offset the underperformance in November.

- Since the HML IER there has been a reduction in the investments made by HML and BHD as a significant proportion of the notes are now owned directly by Crown Currency. As such, Crown Currency's cost to fund stock was reduced between November 2018 and February 2019.
- Overall the second quarter and first half of FY19 were slightly behind budget at an EBIT level.
- There have been some minor cost overruns that have contributed to below budget EBIT. However, management are confident that this predominantly relates to non-recurring expenditure items.

Maintainable earnings

Whilst Crown Currency is currently operating slightly behind budget for FY19 we do not consider that this is significant enough to warrant adjusting the selected maintainable earnings range as set out in our HML IER. As such we have not changed our selected maintainable earnings range of $5.6 million to $6.0 million.

Earnings multiple

The following table sets out the updated historical and forecast trading EBIT multiples for the selected comparable companies.

Table 4: Trading multiples of comparable companies

Name	Location	EV	EBIT Growth		EBIT Margin		EBIT Multiple		HML IER Multiple	
		(AU$'m)	Current	Forecast	Current	Forecast	Current	Forecast	Current	Forecast
Foreign Exchange										
The Western Union	United States	14,659.0	2%	2%	20%	20%	9.2x	9.0x	9.4x	9.2x
OFX Group	Australia	389.6	1%	16%	20%	21%	15.4x	13.2x	15.3x	13.0x
FairFX Group	United Kingdom	173.0	1302%	59%	27%	34%	13.4x	8.4x	15.2x	7.1x
Currency Exchange International	United States	94.3	18%	28%	21%	24%	8.4x	6.6x	9.2x	6.6x
High							**15.4x**	**13.2x**	**15.3x**	**13.0x**
Low							**8.4x**	**6.6x**	**9.2x**	**6.6x**
Average							**11.6x**	**9.3x**	**12.3x**	**9.0x**
Median							**11.3x**	**8.7x**	**12.3x**	**8.2x**
Australian Travel										
Flight Centre	Australia	3,435.4	8%	8%	12%	13%	8.8x	8.2x	8.1x	7.5x
Corporate Travel Management	Australia	2,650.1	26%	19%	30%	31%	19.6x	16.5x	17.4x	14.8x
Webjet	Australia	2,060.8	52%	53%	27%	32%	20.2x	13.2x	14.1x	9.3x
Helloworld Travel	Australia	490.1	15%	11%	15%	16%	12.8x	11.5x	12.4x	11.3x
SeaLink	Australia	512.9	22%	14%	17%	18%	8.8x	7.7x	8.9x	7.7x
High							**20.2x**	**16.5x**	**17.4x**	**14.8x**
Low							**8.8x**	**7.7x**	**8.1x**	**7.5x**
Average							**14.0x**	**11.4x**	**12.2x**	**10.1x**
Median							**12.8x**	**11.5x**	**12.4x**	**9.3x**

Source: S&P Capital IQ and Leadenhall analysis as at 12 March 2019

Notes:

1. In the table above, HML IER refers to the EBIT multiples presented on our HML IER presented as at 21 November 2018.

2. In the table above, current refers to the current financial year for which actual results are not yet available (generally FY19) and forecast relates to the next financial year (generally FY20). The comparable companies have a mix of financial year end dates.

3. There is no consensus EBIT forecast for Currency Exchange International. As forecast EBITDA is available, we have deducted $1.3 million for depreciation and amortisation (in line with actual depreciation and amortisation for the past four years) to estimate forecast EBIT for the current and forecast years for the purpose of our analysis. We consider this to be reasonable given the relatively low capital intensity of the business and small differences in historical depreciation despite significant increases in revenue.

In relation to the comparable company multiples shown above we note the following:

- The multiples of the comparable foreign exchange companies have been relatively stable with the exception of Fair FX Group where the current multiple has decreased by 1.8x and the forecast multiple has increased by 1.3x. due to a slight increase in current year consensus EBIT estimates, a 25% decline in forecast consensus EBIT estimates and a decline in the share price as a result of negative industry sentiment due to decreasing overseas passenger numbers in the UK and industry margin pressures.

- The comparable company multiples in the Australian travel sector have remained relatively stable with the exception of Webjet which has increased considerably primarily due to continued strong growth, expectations for new growth initiatives and outperformance of FY18 consensus earnings expectations.

We have not identified any more recent transactions for which earnings multiples are publicly available in addition to those set out in our HML IER.

Based on the above, we do not consider that there is any compelling evidence to change our selected earnings multiple and as such we have applied an EBIT multiple of between 8.5x and 9.0x to apply to our valuation of Crown Currency (on a minority basis).

In conducting our Crown Currency valuation analysis we have considered the impact of the repayment of the JBL loan which reduced the balance of foreign currency held as stock. Management have advised that there has been no impact on the operations of Crown Currency as a result of the decrease in currency held as stock after the draw down on the 2019 JBFG Facility. The current balance of currency held as stock is approximately $6.7 million. Historically, both HML and BHD have invested in foreign currency traded by Crown Currency. Whilst there is some additional risk associated with external investors funding foreign currency stock, particularly in light of the proposal to call a general meeting to remove the current directors of BHD, we do not consider the risk to be significant enough to alter our valuation conclusions for JBFG as a business such as Crown Currency would likely be able to source alternative funding if HML or BHD withdrew their investments in foreign currency.

JB Trading House

Trading update JB Markets (including JB Alpha)

Below are our key observations based on discussions with management and review of recent financial performance for the second quarter of 2019:

- Revenue from internal futures brokerage fell sharply in the second quarter of FY19 due to reduced trading because of an unexpected market downturn. This resulted in a net loss for the six months to 31 December 2018 after recording a small profit in the first quarter of FY19. January 2019 was also loss making primarily due to continued downturn in trading by funds managed by JBL.
- The JB Prime Multi Asset platform, developed in partnership with CQG, went live on 13 February 2019. A new company, JB Prime Pty Ltd, was established as a wholly owned subsidiary and corporate authorised representative of JB Markets for the purpose of this venture. JB Markets are now focussing on marketing and signing up new users to the platform.
- There has been a small increase in FUM in the unlisted JB Hi-Alpha funds. FUM is expected to continue to increase in the JB Hi-Alpha retail fund which has been successfully launched since our HML IER.
- On 4 March 2019 JB Markets hired an institutional futures broking expert who is expected to drive growth in external futures broking revenue.

Trading update Genesis

Below are our key observations based on discussions with management and review of recent financial performance for the second quarter of 2019:

- Genesis has continued to underperform recording a significant loss in the first half of FY19. This is primarily due to continued lack of volatility in the interest rate markets in which Genesis trades.
- Genesis is in the process of negotiating a merger agreement which could result in a significant increase in JBFG's potential earnings from the business if the transaction proceeds.

Maintainable earnings

In our HML IER we selected maintainable earnings for JB Trading House (inclusive of JB Markets and Genesis) of $1.5 million to $2.0 million. We consider that it is reasonable to increase the high end of the range of maintainable earnings for JBTH from $2.0 million to $2.5 million for the following reasons:

- The potential to realise an increase in earnings from the potential Genesis merger.

- Progress made by JB Markets in relation to increasing FUM in the Hi-Alpha funds and roll out of the JB Prime Multi Asset platform, although this was envisaged at the time of the HML IER tbut has since been partially de-risked.

We have left the earnings range unchanged at the low end as there is execution risk associated with both the Genesis merger and the JB Markets growth initiatives.

Earnings multiple

The following table set out the updated historical and forecast trading PE multiples for the selected comparable companies.

Table 5: Trading multiples of comparable companies

Company	Location	Market cap	NPAT Growth		NPAT Margin		PE Multiple		HML IER Multiple	
		(AU$'m)	Current	Forecast	Current	Forecast	Current	Forecast	Current	Forecast
CME Group Inc.	United States	86,047.9	28%	11%	50%	52%	24.3x	21.9x	30.1x	27.0x
E*TRADE	United States	16,571.9	-3%	7%	34%	35%	11.6x	10.8x	12.9x	12.5x
Interactive Brokers	United States	5,725.7	10%	19%	9%	10%	21.8x	18.3x	24.6x	19.3x
Swissquote Group	Switzerland	813.1	34%	-8%	26%	22%	9.7x	10.5x	15.6x	13.5x
Moelis Australia	Australia	686.8	41%	10%	30%	31%	16.6x	15.1x	18.7x	17.8x
CMC Markets	United Kingdom	447.4	-66%	43%	12%	15%	14.2x	9.9x	11.9x	9.1x
BinckBank	Netherlands	669.2	-35%	14%	16%	18%	18.5x	16.2x	9.0x	10.7x
GAIN Capital Holdings	United States	357.8	-84%	65%	4%	7%	16.7x	10.1x	8.9x	13.5x
High							**24.3x**	**21.9x**	**30.1x**	**27.0x**
Low							**9.7x**	**9.9x**	**8.9x**	**9.1x**
Average							**16.7x**	**14.1x**	**16.5x**	**15.4x**
Median							**16.7x**	**13.0x**	**14.3x**	**13.5x**
Interquartile mean							**16.5x**	**13.2x**	**14.8x**	**14.3x**

Source: S&P Capital IQ and Leadenhall analysis as at 12 March 2019

Notes:

1. In the table above, HML IER refers to the EBIT multiples presented on our HML IER presented as at 21 November 2018.

2. In the table above, current refers to the current financial year for which actual results are not yet available (generally FY19) and forecast relates to the next financial year (generally FY20). The comparable companies have a mix of financial year end dates.

We note that whilst there have been some movements in the multiples of individual companies, overall the average and median multiples have been relatively stable.

We have not identified any more recent transactions for which earnings multiples are publicly available in addition to those set out in our HML IER.

Based on the above, we do not consider that there is any compelling evidence to change our selected earnings multiple and as such we have applied a PE multiple of between 11.0x and 12.0x to apply to our valuation of JBTH (on a minority basis).

R&S

Trading update

Below are our key observations based on discussions with management and review of recent financial performance for the second quarter of 2019:

- First half FY17 revenue has been significantly below budget. The impact of lower revenue has been partially offset by higher gross margins and lower operating expenses. Based on trading for the seven months to January 2019, full year EBIT is tracking in line with expectations set out in our HML IER.
- Management expects positive trading conditions in the final five months of FY19 driven by:
  - Improved trading in the repossessions business unit which experienced unprecedented volumes of repossessions initiated in December and January which should flow through to revenue in February and March.
  - The ramp up of the New Zealand audit business which conducted its first audits in early February 2019.

- Continued focus on reducing contractor costs by leveraging scale to require service providers to tender for R&S businesses in those markets where multiple providers are currently utilised. In the future R&S will also consider directly employing dedicated service providers in markets where it would be cost effective to do so.

- In the longer term management is focusing on developing new service offerings as well as identifying and targeting new clients in the wake of the outcome of the banking royal commission which is likely to result in lenders focussing on regulatory compliance which is a strength of R&S.
- R&S are in the process of negotiating an acquisition that would significantly increase the scale of the business if executed.

Maintainable earnings

The year to date performance of R&S to January 2019 is in line with our HML IER and there has been little change in the outlook for the business. As such we have not changed our selected maintainable earnings range of $2.0 million to $2.5 million as set out in the HML IER.

Earnings multiple

The following table set out the updated historical and forecast trading EBIT multiples for the selected comparable companies.

Table 6: Trading multiples of comparable companies

Company	Location	EV (AU$'m)	EBIT Growth		EBIT Margin		EBIT Multiple		HML IER Multiple	
			Current	Forecast	Current	Forecast	Current	Forecast	Current	Forecast
Automatic Data Processing	United States	94,055.8	22%	12%	22%	23%	21.5x	19.2x	20.4x	18.2x
Alliance Data Systems	United States	42,657.2	26%	13%	24%	25%	16.0x	14.1x	16.7x	14.9x
Intrum	Sweden	12,141.8	60%	8%	40%	40%	12.7x	11.7x	15.5x	10.7x
Coface	France	6,063.4	-12%	9%	12%	13%	21.6x	19.9x	19.4x	20.2x
B2Holding	Norway	2,594.9	n/a	10%	50%	49%	8.8x	8.0x	9.7x	8.4x
Credit Corp	Australia	1,286.1	n/a	12%	34%	35%	11.6x	10.4x	10.3x	9.1x
Axactor	Norway	1,132.0	141%	27%	31%	30%	7.3x	5.8x	21.7x	7.7x
Atento	Luxembourg	900.7	5%	9%	6%	6%	6.2x	5.7x	7.2x	6.4x
Collection House	Australia	271.9	-8%	13%	29%	29%	6.6x	5.8x	6.3x	5.8x
Low							**6.2x**	**5.7x**	**6.3x**	**5.8x**
High							**21.6x**	**19.9x**	**21.7x**	**20.2x**
Average							**12.5x**	**11.2x**	**14.1x**	**11.3x**
Median							**11.6x**	**10.4x**	**15.5x**	**9.1x**
Interquartile mean							**11.3x**	**10.0x**	**14.3x**	**10.2x**

Source: S&P Capital IQ and Leadenhall analysis as at 12 March 2019

Notes:

1. *In the table above, HML IER refers to the EBIT multiples presented on our HML IER presented as at 21 November 2018.*
2. *In the table above, current refers to the current financial year for which actual results are not yet available (generally FY19) and forecast relates to the next financial year (generally FY20). The comparable companies have a mix of financial year end dates.*
3. *Dun & Bradstreet is no longer shown as a comparable company as it was acquired by a private consortium in February 2019.*

We note that the multiples have been relatively stable with the exception of the current multiple for Axactor. The movement in the current Axactor multiple is due to a December year end and the forecast EBIT for FY19 being much higher than the forecast EBIT for FY20.

In addition to reviewing comparable company trading multiples, we have identified one recent comparable transaction which is identified in bold in the table below.

Table 7: Transaction multiples

Target	Acquirer	Date	Target Country	Ent. Value	Historical multiple		Forecast multiple	
					EBITDA	EBIT	EBITDA	EBIT
Dun & Bradstreet	**Consortium**	**Feb-19**	**United States**	**8,997.1**	**12.5x**	**13.2x**	**12.6x**	**13.9x**
R&S	JBFG	Jun-17	Australia	34.0	n/a	n/a	19.3x	19.3x
Lindorff Group	Intrum Justitia	Jun-17	Norway	5,857.7	16.5x	27.1x	n/a	n/a
Transcom Worldwide	Altor Equity Partners	Mar-17	Sweden	375.0	9.4x	12.7x	7.3x	9.8x
ALTOR GmbH	Axactor	Sep-16	Germany	50.0	n/a	12.0x	n/a	n/a
Ikas Norge	Axactor	Mar-16	Norway	45.5	n/a	11.3x	n/a	n/a
Illion	Archer Capital	Jun-15	Australia	220.0	n/a	16.8x	n/a	n/a
Average					**12.8x**	**16.4x**	**13.1x**	**14.3x**
Median					**12.5x**	**13.2x**	**12.6x**	**13.9x**

Source: S&P CapitalIQ, HML and Leadenhall analysis

Notes:

1. Illion was formerly know as Dun & Bradstreet Australia

Based on the above, we do not consider that there is any compelling evidence to change our selected earnings multiple and as such we have applied an EBIT multiple of between 6.5x and 7.5x to apply to our valuation of R&S (on a minority basis). We understand that current price negotiations for the proposed acquisition are in line with our selected range.

Surplus Assets and Net Debt of JBFG

We have considered the surplus assets and net debt of JBFG on a consolidated basis as set our below.

Surplus assets

We have identified the following surplus assets of JBFG:

- **Growth Point Capital**: there have been no significant changes in the operation of Growth Point Capital since our HML IER. As such, we consider the value of $0.5 million to $1.0million applied to Growth Point Capital in our HML IER to be appropriate for our current analysis.
- **Capital Credit:** the current carrying value of the only asset of Capital Credit, purchased debt ledgers, as at 31 January 2019 was $0.5 million, in line with the assessed value in our HML IER.
- **Term Deposits:** as at 31 January 2019, the balance of the JBFG term deposit was $0.8 million (increase of $0.3 million since our HML IER).
- **Other financial assets:** as at 31 January 2019, JBFG held $0.4 million of other financial assets primarily comprised of prepayments. We consider the book value to be representative of fair value.

Non-operating liabilities

We have not identified any non-operating liabilities.

Net cash

The cash position of JBFG is summarised in the table below:

Table 8: JBFG net cash and related party loans

JBFG Net Cash	
Component	**$'m**
Net cash	
Cash and cash equivalents	12.6
External loan facility	(7.1)
Convertible loan	(2.4)
Total	**3.2**
Related party loans	
Loan to JBL	7.1
JBL loan to Capital Credit	(1.3)
JBL Loan to Crown Currency	(0.4)
Loan from BRL to Ashdale	(0.0)
Loan from HML to Capital Credit	(0.4)
Loan from BHD to Genesis	(0.8)
Total	**4.2**

Source: JBL and Leadenhall analysis

In relation to the above we note:

- **Cash and cash equivalents:** of $12.6 million (excluding foreign currency held as inventory, client segregated funds and $0.4 million required as regulated capital). This is an increase of $3.2 million since our HML IER which is primarily due to cash received from the settlement of the $7 million external debt facility.
- **External loans:** since our HML IER, JBFG has drawn down on the $7 million external debt facility. As at 31 January 2019, the balance of this facility was $7 million.
- **Related party loans:** this balance is comprised of the following loans from related parties:
  - Net loan of $5.4 million to JBL as per the JBL balance sheet as at 9 March 2019 ($7.1 million drawn down on the 2019 JBFG Facility less loans from JBL to Capital Credit and Crown Currency totalling $1.7 million which includes a $0.2 million impairment to the Capital Credit loan).
  - Loan from BRL to Ashdale of $40,000 as at 31 December 2018
  - Loan from HML to Capital Credit of $0.4 million as at 31 December 2018
  - Loan from BHD to Genesis of $0.8 million as at 31 December 2018
- **BHD convertible loan:** relates to the convertible loan with a current carrying value of $2.4 million as at 31 December 2018. The conversion option is currently out of the money based on our assessed values and as such we have not attributed any value to this component.

Value of a JBFG Share

Our assessed fair market value of a JBFG share has not changed since our HML IER. The assessed value of a JBFG share is $3.50 to $4.00.

APPENDIX 3: BRL VALUATION ANALYSIS

We have updated our assessment of the fair market value of BRL as set out in the table below.

Table9: Net asset based valuation of BRL

$'000	Low	High
Investments		
Interest in JBFG	30,958	35,380
Franchises	-	500
Total investments	**30,958**	**35,880**
Other net liabilities		
Net cash	50	50
Related party loans	(175)	(175)
Other net liabilities	(8,269)	(8,269)
Deferred taxes (net)	(2,190)	(3,517)
Management agreement termination	(470)	(553)
Other realisation costs	(611)	(479)
Total other net liabilities	**(11,665)**	**(12,943)**
Assessed net asset value	**19,292**	**22,937**
Dilutionary impact of options	(2,091)	(2,602)
Net asset value after options	**17,202**	**20,335**
Number of shares ('000)	4,972	4,972
Value per share ($)	**3.46**	**4.09**

Source: Leadenhall analysis

Further details of the key components of the BRL valuation analysis, including changes from our HML IER, are set out below.

Investment in JBFG

Our JBFG valuation analysis is set out in Appendix 2 above. As a result of this analysis our assessed value of a JBFG share has not changed since our HML IER. Therefore, the value of BRL's investment in JBFG also remains unchanged.

Franchise assets

There has been no change in the outlook for the franchise assets since our HML IER. As such our assessed valuation range for these assets remains unchanged.

Other net liabilities

A brief summary of the other net liabilities of BRL as at 31 December 2018 is set out below:

- **Net cash:** since the HML IER BRL has increased its cash position primarily due to a refund of input tax credits after a review of management fees in November 2018 and an increase of $65,000 in the loan from JBL.
- **Related party loans:** as at 31 December 2018 comprise of a net loan to JBFG of $40,000 (no change since HML IER) and a loan from JBL of $215,000 (an increase of $65,000 since the HML IER).
- **Other net liabilities:** primarily relates to $7.15 million in management and performance fees payable to JBL as well as other intercompany payables. The overall balance has increased by $0.6 million since our HML IER which is primarily due to the collection of the refundable input tax credits of $0.5 million.

- **Deferred taxes:** net deferred taxes are comprised of a deferred tax liability, which primarily relates to BRL's unrealised gain on its investment in JBFG (adjusted to reflect our selected JBFG value), and a deferred tax asset related to tax losses.
- **Management fees:** as both the remaining term of the management agreement and the NTA of BRL have decreased since our HML IER, the estimated management agreement termination cost has also declined.
- **Transaction costs:** as per our HML IER we have assumed transaction costs of between 2% and 3% of the asset value of BRL.

Shares and options outstanding

There has been no change in the number of BRL shares and share options outstanding since our HML IER. The change in the value of the dilutionary impact of the outstanding options is due to the change in valuation date, decline in the risk free rate from 2.00% to 1.75% and change in the spot price of a BRL share as per our analysis above.

APPENDIX 4: HML VALUATION ANALYSIS

We have updated our assessment of the fair market value of HML as set out in the table below.

Table 10: Net asset based valuation of HML

$'000	Low	High
Investments		
Interest in JBFG	18,725	21,400
Interest in BRL	5,181	6,125
Interest in JBL	44	44
Interest in BHD	45	45
Foreign currency notes	-	-
Related party loans	2,669	2,669
Total investments	**26,664**	**30,283**
Other net liabilities		
Net cash	1,111	1,111
Other net assets	(207)	(207)
Deferred taxes (net)	-	(632)
Management agreement termination	(285)	(316)
Other realisation costs	(1,027)	(811)
Total other net liabilities	**(408)**	**(854)**
Assessed net asset value	**26,256**	**29,428**
Number of shares ('000)	32,347	32,347
Value per share ($)	**0.81**	**0.91**

Source: Leadenhall analysis

Further details of the key components of the HML valuation analysis, including changes from our HML IER, are set out below.

Interest in JBFG

Our JBFG valuation analysis is set out in Appendix 2. As a result of this analysis our assessed value of a JBFG share has not changed since our HML IER. Therefore, the value of HML's investment in JBFG also remains unchanged.

Interest in BRL

Our BRL valuation analysis is set out in Appendix 3. There has been a small decline in the assessed valuation range of a BRL share, as such there has been a small decrease in the value of HML's interest in BRL.

Interest in JBL

We have estimated the value of HML's interest in JBL based on our assessed value of Enlarged JBL as a proxy for the fair market value of this interest. Any reasonable difference in value between JBL and Enlarged JBL would not impact our conclusion.

Interest in BHD

We have included the fair market value of HML's current investment in BHD at the reported after tax NTA as at 28 February 2019.

Related party loans

Related party loans are primarily comprised of a loan to JBL with a book value of $2.3 million as at 28 February 2019. As per the HML IER we do not consider that any reasonable change in the market interest rate would result in a value significantly different to the book value. As such we have adopted the book value of the loan for the purposes of our analysis.

Other net liabilities

A summary of the other net liabilities of HML is set out below:

- **Net cash:** as at 28 February 2019, HML had net cash of $1.1 million an increase of $0.5 million since our HML IER which is primarily attributable to the realisation of the investment in foreign currency bank notes.
- **Other net assets:** the decrease in other net assets since our HML IER is primarily due to the reduction in a GST receivable for which a refund was received in November 2018. These funds received have primarily been used to fund operating losses.
- **Deferred taxes:** net deferred taxes are comprised of a deferred tax liability, which primarily relates to HML's unrealised gain on its investment in JBFG (adjusted to reflect our selected JBFG value), and a deferred tax asset related to tax losses.
- **Management fees:** as both the remaining term of the management agreement and the NTA of HML have decreased since our HML IER, the estimated management agreement termination cost has also declined.
- **Transaction costs:** as per our HML IER we have assumed notional transaction costs of between 2% and 3% of the asset value of HML.

Shares outstanding

There has been no change in the number of HML shares outstanding.

Cross-check

As at 28 February 2019 the reported before tax NTA of HML was $1.0335 and the after tax NTA of HML was $0.9991. The NTA is higher than our assessed value of HML since our assessed value of HML's interest in JBFG and BRL is lower than the valuation prepared by JBL of $4.19 per share included in HML's NTA and we have included realisation costs which are not reflected in the NTA. However, we note the direction of the change in reported NTA since our HML IER is the same whilst the magnitude is greater due to a reduction in the per share value of JBFG in the reported NTA whilst our assessment of the value of a share in JBFG has not changed (as at 31 October 2018 before tax NTA was $1.19 and after tax NTA was $1.10).

APPENDIX 5: ENLARGED JBL VALUATION

We have updated our assessment of the fair market value of a share in Enlarged JBL as set out in the table below. As discussed in our HML IER, the value of Enlarged JBL will be impacted by the level of acceptances received for HML. We have therefore considered the value of Enlarged JBL under two broad scenarios as follows:

- **JBL acquires a 25% interest in HML:** In this scenario JBL would not be able to compulsorily acquire the remaining shares in HML and there would therefore be continued listing and compliance costs for HML. Enlarged JBL would have an effective 32% interest in JBFG.
- **JBL acquires 100% interest in HML:** In this scenario HML would be delisted and JBL would legally have control of JBFG.

Table 11: Assessed value of Enlarged JBL

$'000	HML (100%)		HML (25%)	
	Low	High	Low	High
Investments				
Interest in HML	27,568	30,555	6,092	6,839
Interest in BHD	30	30	30	30
Interest in JBFG	7,194	8,222	7,194	8,222
Interest in BRL	8,894	10,514	8,894	10,514
Interest in BHD options	65	65	65	65
Total investments	**43,751**	**49,386**	**22,275**	**25,670**
Other net liabilities				
External funds management business	-	100	-	100
JBL corporate costs	(5,600)	(5,600)	(5,600)	(5,600)
Net debt	(3,728)	(3,728)	(3,728)	(3,728)
Related party loans	(8,587)	(8,587)	(8,587)	(8,587)
Other net assets	3,044	3,044	3,044	3,044
Deferred taxes	-	(1,348)	-	(1,348)
Total net liabilities	**(14,871)**	**(16,119)**	**(14,871)**	**(16,119)**
Assessed value of Enlarged JBL	**28,881**	**33,267**	**7,405**	**9,551**
Dilutive impact of options	(237)	(427)	(3)	(15)
Assessed valued of Enlarged JBL after options	**28,644**	**32,841**	**7,401**	**9,536**
Discount for lack of control	5%	5%	7.5%	7.5%
Assessed value of Enlarged JBL (marketable minority basis)	**27,212**	**31,199**	**6,846**	**8,821**
Discount for lack of marketability	10%	10%	10%	10%
Assessed value of Enlarged JBL (illiquid minority basis)	**24,491**	**28,079**	**6,162**	**7,939**
Number of JBL shares on issue ('000)	52,090	52,090	29,043	29,043
Value per share ($)	**0.47**	**0.54**	**0.21**	**0.27**

Source: Leadenhall analysis

Further details of the key components of Enlarged JBL valuation analysis, including changes from our HML IER, are set out below.

Investment in HML

In order to estimate the fair market value of Enlarged JBL's interest in HML, we have utilised our assessed value of HML as set out in Appendix 4, after adjusting for realisation costs and ongoing listing as summarised in the table below.

Table 12: Enlarged JBL's interest in HML

$'000	HML (100%)		HML (25%)	
	Low	High	Low	High
Assessed value of HML	26,256	29,428	26,256	29,428
Deduct ongoing listing costs	-	-	(3,200)	(3,200)
Add: realisation costs	1,312	1,127	1,312	1,127
Interest in HML	100%	100%	25%	25%
Value of Enlarged JBL's investment in HML	**27,568**	**30,555**	**6,092**	**6,839**

Source: Leadenhall analysis

In respect of the above we note the following:

- In order to apply to delist HML, JBL must secure at least a 75% interest in HML. If HML is not delisted, costs such as accounting and audit fees, listing and registry fees and directors fees would continue to be incurred. We have estimated these costs to be $0.8 million per annum. We have allowed for these costs to be incurred on an ongoing basis.
- In our valuation of HML on a stand-alone basis we have assumed assets would be realised in an order fashion. In our valuation of Enlarged JBL we have assumed HML will continue to operate and as such the estimated realisation costs have added back to our assessed value of HML on a stand-alone basis.

The value of Enlarged JBL's investment in HML has changed since our HML IER in line with the change in our assessed value of an HML share.

Investment in BHD

We have included the fair market value of JBL's current investment in BHD at the reported after tax NTA as at 28 February 2019.

Investment in JBFG

Our JBFG valuation analysis is set out in Appendix 2 above. As a result of this analysis our assessed value of a JBFG share has not changed since our HML IER. Therefore, the value of HML's investment in JBFG also remains unchanged.

Funds management business

We do not consider that there is a reasonable basis for changing the value of the funds management business as set out in the HML IER for the following reasons:

- The funds management business is still loss making.
- There is relatively little prospect of performance fees being generated in the short to medium term.
- Although the JB Hi-Alpha retail fund has been successfully launched, there have been minimal FUM flows to date and those that have been received have been partially offset by a small FUM outflow from the wholesale fund.
- Although the BHD transaction is not proceeding, we do not consider that a potential acquirer would put significant value on the BHD FUM, given the continuing investment ties to JBL and entities controlled by JBL, albeit that the ties are not as significant since the repayment of the JBL Loan.

Corporate costs

As there has been no material change in the operations of JBL and as such we have not made any changes to the assessed corporate costs.

Other net liabilities

Other net liabilities of JBL as at 9 March 2019 include the following:

- **Net debt:** debt of $3.7 million which was comprised of:
  - JBL convertible notes totalling $3.6 million
  - Loan of $0.25 million from Stuart McAuliffe ($0.75 million of this loan has been repaid since our HML IER)
  - Cash on hand of $0.1 million
- **Related party loans**: are primarily comprised of:
  - $2.3 million loan extended by HML
  - $1.1 million loan extended by BHD
  - Net loans of $5.5 million extended by JBFG as set out in Appendix 2 above
- **Other net assets:** primarily related to working capital, including the $7.3 million receivable from BRL. The increase in other net assets since our HML IER is primarily attributable to favourable movements in working capital in particular a decrease in trade creditors and employee provisions.

Ongoing HML listing costs

Costs such as accounting and audit fees, listing and registry fees and directors fees would continue to be incurred if HML remains as a listed entity. We have estimated these costs to be $0.8 million per annum. We have allowed for these costs to be incurred on an ongoing basis.

Discount for lack of control

We have included a small increase in the discount for lack of control in the 25% scenario to reflect that fact that JBL would not gain legal control of JBFG unless it acquires at least 86% of HML. This is only a small increase as JBL exerts significant influence over JBFG by virtue of its role as investment manager of JBFG's significant shareholders.

Discount for lack of marketability

We have not changed our assessment of the appropriate discount for lack of marketability since our HML IER.

APPENDIX 6: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for HML's shareholders for the purpose of assessing the fairness and reasonableness of the HML Offer. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by HML, and their investment manager JBL, being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to HML's management and independent directors for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by HML, JBL and their officers, employees, agents or advisors. HML and JBL have agreed that they will not make any claim against Leadenhall to recover any loss or damage which they may suffer as a result of that reliance and that they will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by HML, JBL and their officers, employees, agents or advisors or the failure by HML, JBL and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Dave Pearson, CA, CPA, CFA, CBV, M.App.Fin., B.Comm., Richard Norris, BA (Hons), FCA, M.App.Fin., Gary Cornelius B.Ec (Hons), FFTP, FAICD Dip and Katy Lawrence B.Comm., CA, Grad Dip.App.Fin.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and is a valuation engagement in accordance with that standard.

Independence

Leadenhall and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with HML, JBL or any other related entities or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the HML Offer.

We advise that in the previous two years we have undertaken the following engagements in respect of HML, JBL and other group related entities:

- In April 2018 we were engaged to prepare an IER in relation to a previous transaction contemplated between HML and JBL. Our work was completed and our report was issued in draft to ASIC however, the transaction did not complete and our report was never issued in final.
- In June 2018 we were engaged to provide a review opinion in respect of HML's valuation of unlisted investments.
- We prepared the HML IER dated 6 December 2018. This report is a supplementary report to the HML IER.

The fees for the above engagements were not material in the context of Leadenhall group revenue over the last two financial years.

Leadenhall was not involved in setting the terms of, or any negotiations leading to, the HML Offer. Our only role has been the preparation of this report.

Leadenhall has acted independently of HML. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.